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SCHOOL REVENUE

HENRY C. MORRISON

Professor of Education in the
University of Chicago

"S'il est, pour nos sociétés contemporaines, un problème, dont la solution pratique s'impose, c'est bien celui de l'éducation.... l'avenir s'impatiente et, peutêtre avant que beaucoup d'années s'écoulent, nos sociétés lassées se trouveront face à face avec un inquiétant dilemme: progrès rapide ou irrémédiable déclin."

—LETOURNEAU
L'Evolution de l'Education
1898

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PREFACE

Altogether the most formidable current problem in the maintenance of our system of popular education is suggested by the query, Is there money enough to support any such school system as Americans have conceived? The spirit in which the answer is made varies from abject pessimism to enthusiastic and highly emotional optimism, depending very much on the self-interest of the individual who is consulted. "Taxes are already more than we can bear." "But look at our boundless wealth." Such is the objection to the program to which we are seemingly committed and such the rejoinder.

It is, of course, true that expenditure for public schools has increased enormously in the last three decades, until as a national community our expenditure for education is greater than for any other single account, save the cost of past wars and preparation for future wars alone. That in itself ought to be cause for congratulation. What the burdened taxpayer forgets is that the mechanisms by which the school tax is levied and the school money administered may be responsible for a large portion of his trials, rather than the cost of the schools themselves. What the teacher is prone to overlook is the fact that there is always a limit and that not even a nation of millionaires could support whatever educational undertakings the strange fancies of visionaries might plan. In truth, our progress in the relatively brief period noted in the foregoing has been far more rapid than any possible process of assimilation and adjustment to new conditions.

There is never enough money for schools—nor for anything else. So far as we know, the only society in which economizing is unnecessary is that which is found in tropical jungles. There is no quantitative answer to the question which is raised. If we restate the question thus, Is there room for our program of popular

education in the economic and financial structure of modern United States? we may perhaps hope to secure enlightenment.

The United States in more ways than one occupies a position of almost unique advantage. One of these advantages, as Carroll D. Wright many years ago pointed out, lies in the character of our history. American economic history has its clear beginnings, and most of it is in one way or another a matter of record. In most other modern nations, their beginnings fade out into the realm of myth and the history of purely social development is hard to come at. Our history is manageable and intelligible. The fundamental human problem of learning from experience is relatively simple.

In years when the total expenditure for schools constituted but an insignificant part of the total financial effort and life itself was simple, the school system could be viewed with economic complacency. If the money was used to provide livelihood for impecunious erudition, the humanistic advantage was considerable and the harm done could not be serious. The situation is altogether different when the cost of schools is pressing hard on one-quarter of the total tax expenditure of the nation and when the latter itself has shown relatively very great increases. The school system becomes very decidedly a factor in the broader problem of nation-planning.

This volume represents an attempt to arrive at some understanding of the basis of the school revenue in the financial organization of society, of the school system as an organic part of the fiscal organization of our form of the civil state, and of the school as an economic institution. While it is hoped that the book will be of substantial practical value to those who are charged with the executive and legislative control of the school system, to boards of education, school officers, and teachers, and to interested citizens, no attempt has been made to produce a handy collection of recipes for amateurs.

I am under obligations to the authors of treatises and essays in the field of general economics and public finance whose works

are quoted in the annotations and to many others. For the original specific factual material upon which the chief contributions of the study, if such there be, are founded, I owe much to the students who have worked with me in the University of Chicago, and especially to the following: Carl B. Althaus, Nelson B. Henry, Jr., Joseph C. McElhannon, Homer P. Rainey, Floyd W. Reeves, Charles P. Russell, Eston V. Tubbs, and George W. Willett. Finally, I am grateful for the help of my colleague, Professor Isaac N. Edwards, who has generously read and criticized extensive portions of the manuscript and has contributed much in enlightening discussions of the whole problem.

HENRY C. MORRISON

CHICAGO
January, 1930

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CHAPTER I

THE SCHOOL

The School is no new thing: it is rooted in the nature of humanity itself. As soon as there appeared in the course of organic evolution a creature who was capable of progressively improving his lot in life, apart from the slow process of modification of physical structure, the School appeared, for this peculiar capacity of Man is not only the basis of the School, but it requires the School. Wherever an organized purpose looking to the upbringing of children is present, there is a school, whether it be in the family, in tribal practices, in the Church, or under the care and support of the State.

The School Is the Fundamental Factor in Social Evolution.—Every child born into the world begins life at essentially the same point at which every other child has begun life, since the species took on its present characteristics. There is little evidence that Man as a physical organism is at bottom materially better than he was long before the dawn of recorded history. He has incredibly improved his adjustment to the world in which he finds himself by learning the ways of the world *and by transmitting his learnings to his children.* Of late he has learned a great deal about the care of his own physical being, and in that sense has learned to control his physical organism and to conserve its development. From time to time what are commonly called inventions appear in the record, as we read back from the vantage-point of an age of scholarship and science, but inventions constitute the fabric of progress only because they make the world more easily and effectively manageable and learnable. Thus, every infant must begin at the beginning and catch up. Modern parents have no chromosomes for the culture of the twentieth century: they teach it to their offspring—or fail to do so, as the case may

be. In the process of catching up, the modern child has more to learn than did his ancestors in their childhood, but he has vastly more facilities for learning.

On the whole, now as in the remotest antiquity, the essential learnings are: how to get adequate food, clothing, and shelter; how to be happy; how to get along well with the neighbors. These are not altogether intellectual learnings. To a much greater extent they are learnings in self-restraint, in the amenities of social intercourse, in capacity to find satisfactions elsewhere than in the senses or in the pursuit of crude self-interest. Upon these learnings rests pretty much the whole structure of civilization. That civilization is of the highest type in which they have accumulated to the greatest refinement and have been diffused among the people to the greatest extent.

Consequence of the Neglect of Schooling.—Hence it is easy to see, and easily to be demonstrated, that the stability of society and the progress of civilization have alike always depended upon the success with which each generation has contrived to hand on its learnings to the next generation, not the learnings of the individuals who are least adjusted but those of the individuals who are best adjusted to the requirements of the time. Wherever society has become either temporarily or permanently disrupted, either locally or over a wide area, in the past or in modern states, the most comprehensive explanation, among a multitude suggested, is that people have failed to maintain adequate schooling. The children take on the outward semblance of parental life, but in fact they become arrested at a more primitive stage. The community life breaks down more or less because the younger citizens have not become the kind of people who can carry it on. We need not find it at all difficult to discover individual communities in which precisely this social process has taken place, and in studying them and seeing how the principle works out we shall hardly fail to see correctly why it is that even the most highly cultivated families and the most advanced societies remain still exceedingly unstable, until the stage has been reached at which great public

school systems become so efficient and so well established as to minimize the danger that a single generation will grow up wholly or essentially unschooled.

I

THE ORGANISM AT WORK.—People talk glibly about the "collapse of civilization," usually having reference chiefly to the consequences of international wars. Civilization does not collapse: it fails in spots to reproduce itself. Most communities have still numerous examples of savagery or barbarism in their midst. In the democratic State, especially in states which are committed to extreme reliance on what is called local self-government, such individuals may and frequently do increase in numbers and influence until they begin to set the standards of local community life. People begin to mention "the corrupt alliance of crime and politics," or they find some other label, satisfied that having tagged the situation with a name all things will presently be well again. The gang chief of primitive society, or rather probably of a degenerate society, reappears as the city "vice lord," and he builds the same kind of prestige which his prototype built in the ninth century. The civilized individuals are mildly shocked by events, perhaps at times rather pleasantly stimulated; but they remain unaware of the social process going on, until one after another they suffer expropriation of goods, mutilation of person, death by violence. It is then overlate for them to realize that they are experiencing that "collapse of civilization," or something much like it, about which they used to read so much.

The simple explanation is that too many boys and girls, *of the preceding generation,* some in the slums and some on the boulevards and some importations, have been allowed to fail to become civilized.

FUTILITY OF SELF-POLICING.—No given population can police itself. An autocrat can hold down the vicious and the primitive, or an oligarchy can arrange to have it done, but it is as absurd to think of local democracy doing so as to think of one man hiring another to constrain him in the straight and narrow way. The

constabulary and the criminal courts are the creatures of the people and they will be as effective as the people in reality wish them to be; that is, they always reflect the actual mores or level of civilization which prevails in the community. If the people are unanimous in genuine desire to walk in the paths of rectitude and to distinguish critically between mine and thine, then neither the judge nor the policeman is necessary, save as a specialist set apart to determine and administer nice points in ethics or as an usher in the stream of traffic. We contrive on the whole, in most communities in America, to exist in safety and comfort and to contemplate decade by decade some gains in the art of getting on well together, simply because enough of us have been well brought up, that is, we have learned to be civilized. Our parents, through the schools which they maintained for us, in the family and in the community, have transmitted to us what they had learned to be, and being more or less adaptable we have added something to the stock. Perhaps we have even become aware that the road to the golden age is still a long one. So long as the civilized are in the substantial majority in a self-governing local community to which the state has delegated police powers, they dominate, not primarily because they cast the most votes at election but because theirs are the local conduct patterns. The local administration of the law interprets and applies the local standards, and the latter commonly represent more or less the sifted product of the struggling and experimenting centuries. The family school conforms to civilized standards and measurably effective public schools, tax-supported or otherwise supported, are maintained. The community is in stable equilibrium. Community life on the whole grows better from year to year, and it may grow better very rapidly.

The Process of Community Degeneration.—Now if the community has a favorable geographic location, it begins to grow greatly and in its growth other people come to live there. Some of them come from other similar communities and are an asset; some are the primitives of other communities bored under the

trammels of ordered existence and longing for "freedom, the lights and music." These last are at various stages of personality evolution. Some are Regency or Restoration Englishmen, though their family names do not always so suggest; others are Europeans of the fourteenth century; many are people who have recently emerged from the old stone age. They wear clothes of current style and show surprising capacity in acquiring the material appurtenances of civilized life. A series of marked and fundamental changes in community life begins to appear.

The family school in many cases reverts to the care-free Polynesian level, that is, the discipline of children is neglected, and singularly enough the children presently begin to exhibit sundry Polynesian traits. So far as dress and the cult of the body are concerned, these traits appear in great abundance. We have no record of instances of devotion to "long pig," but pursuit of other humans as a problem in big-game hunting is not unheard of. When these youths are brought into court, the learned judge not unnaturally receives an impression of monstrous behavior commonly interpreted as abnormality and so scientists are called in, who talk learnedly in the professional terminology of the madhouse. Intellectual equilibrium in the courtroom is thus restored. The simple explanation divested of big words, however, is to be found in the most fundamental law of society which is explained in the first section of this chapter. These young people had to learn and there was no social organization adequate to teach them, save as some of them maybe acquired more or less eruditional veneer.

In other cases, the family school is effective enough, but it transmits a primitive set of mores in which the rights of others to life, liberty, and the pursuit of happiness—and especially the sanctity of the property of others—have no place.

Most disastrous of all, the State schools themselves are debauched in the process of shifting political control, either because some of the newer social groups deliberately desire to wreck them; or else, more often, because they furnish almost unlimited

possibilities for providing the shiftless and incompetent with livelihoods at the expense of the taxpayer.

Finally, the children of the "older families" tend to assimilate themselves to the more primitive conduct patterns which are appearing. Any observant parent or teacher is wholly familiar with the working out of the principle and is keenly aware that children in fact are much more easily influenced by the standards of their contemporaries than by those of the older generation. The adolescent particularly has a horror of appearing "queer." Further, any learning process requires the expenditure of energy, and conformity is the pathway of least resistance. The tendency is, of course, accentuated when the more primitive standards belong to an affluent class, and America is full of instances of easy rise to wealth. Hence the concern of the competent schoolmaster for what he calls "school spirit."

Now most people are not acutely aware of the rapidity of the process under which the "rising generation" becomes the "dominant generation." As age groups now are, more than 60 per cent of the entire populaton which is twenty-one years of age and over was in the *elementary school* within twenty years, much of it, of course, more recently. Hence, within about fifteen years or less, provided we can locate the beginning of the process described in the preceding paragraphs with any degree of definiteness, degenerative changes begin to appear in the community life. But the movement does not reach full tide until the generation which grew up under the newer conditions of schooling in its turn becomes responsible for the ancient process of transmitting its learnings. Under favorable conditions—or unfavorable, depending on the point of view—the process of community degeneration from a condition in which security in life, liberty, and the pursuit of happiness can be taken for granted to one in which existence is in effect subject to the caprice of the criminal class requires not more than from thirty to forty years.

But of course the process is not always so simple as this statement implies.

In the process of growth, the balance in immigration between civilized and uncivilized individuals may have inclined heavily enough to the former to prevent the process of degeneration from becoming established. An effective autocrat, or a strong and alert oligarchy, or the national government itself, may have been able and willing to maintain wholesome and effective social controls, notably effective State schools.

Or, finally, the original citizenship may have been aware of the significance of the School and powerful enough to maintain effective public schools, throughout the period of growth.

In either of the two cases last described, the children of the newcomers are assimilated and the learnings of the advanced rather than those of the primitive or degenerate elements are transmitted.

Lower Culture Tends To Drive Out a Higher.—Whatever the chances may be of preserving an integrated community life at high level, the fundamental law that every child must learn always creates a condition in a free, self-governing, growing community under which a lower culture must tend to drive out a higher, much as bad money always drives out good money. Intelligent financial statesmanship, knowing the law of money, has learned to distinguish between bad money and good and has established a medium of exchange in which there is no place for bad money. So in the control of society in the interest of human welfare and betterment, intelligent educational statesmanship can learn to understand the function of the School and to provide public schools which will effectively transmit the learnings of the civilized portions of society.

That the thesis thus developed is no fanciful picture can amply be demonstrated by an analysis of societal evolution and degeneration in our cities and in rural slums. Especially clear is the process in the great cities of America and of Mediterranean antiquity. The process is obscured in most of the modern cities of western Europe by the circumstance that in their police and in their public schools they tend to be governed, or at least closely

supervised, by the State. Great cities afford the most favorable opportunity for study, for the reason that they have always tended to become catch basins, toward which the vicious elements in society have eagerly turned their steps; and centers of severe economic competition with its accumulation of human wreckage. The great city tends to reap the consequences of the neglect of schools in other communities, and in its turn to become a center of infection in the body politic.

The principles thus developed can further be substantiated from the intimate case histories of children and young people who have "gone wrong." In these studies, it is very easy to infer that some organic and perhaps innate inadequacy is responsible for the failure of civilized personality to evolve. Save in a very small minority of cases, such inferences are unsupported conjecture pure and simple, despite an elaborate investigational technique which tends to overawe the reader. In a preponderating number of cases, there is positive evidence touching the reasons why learning went wrong. In practically all such cases, the explanation is a bad or ineffective home or a bad or ineffective public school.

That the public school can be effective in lifting children to the level of the culture required by the civilization of our time has been clearly proved again and again by our best city public-school systems. The indubitable fact that many such systems fail utterly and the fact that the wholly successful ones are probably the exception and not the rule are not evidence to the contrary, on the principle that one positive instance is worth more as evidence than a thousand negative instances.

II

THE FAMILY SCHOOL.—Throughout the ages the most universal schooling, and by far the most significant and effective, has been that which is carried on in the family and home. It is extremely doubtful that there will ever be found a substitute. The reason is to be found in the principle that normal personality de-

velopment originates in the powerful affective relations between parent and child, and in the imitative responses of young children to parental conduct and emotional patterns. In the face of an effective family life, the public primary school is at best a poor and halting agency. Modern welfare agencies and modern schoolmasters are well aware of the principle, and they devote their energies wherever possible not to attempting to find a substitute for the home but to reconstructing the home wherever the home is failing in its primary function. The practice of ignoring the existence of this fundamental schooling has led and still leads to widespread misconceptions of the nature of the School itself. Overlooking the principle that the foundations of personality are of necessity laid in the home, and by consequence that defects in personality originate in defective homes rather than in poor genetic material, has not infrequently led even scientific men into profound misconception of the nature and possibilities of personality development itself. We shall refer to this school which is carried on in the home as the *family school.*

The Private School.—Now beyond the period of infancy, with primary interest in protection, the most powerful motive dominating the family is that its children shall be allowed to "run with the pack," that is, that they shall become acceptable members of the social group to which the parents belong and if possible shall be able to rise into higher and the highest levels of social prestige. The motive, of course, on the whole makes for decency in life. It also generates a school which exists primarily to expand the family school and to further the group interests and aspirations of the families from which it admits children. Thus arises the *private school.* The management and the patrons of the private school may sincerely cherish and proclaim a public purpose, but the nature of a school is not determined by its prospectus: it is determined by the real motives which provide the school with pupils.

So long as the family school, with or without its expansion into the private school, is on the whole doing its work well, people

are unimpressed by the call for public schools of any description. They "don't believe in education." If such are established, they are prone to be either propagandist agencies or else agencies for some kind of special training or for the pursuit of erudition.

The Breakdown of the Family School.—But in the presence of a rapidly evolving social life, and particularly under the influence of commercial and industrial or military expansion of the community, the family school breaks down as the main reliance of society. Two processes which are at work are fairly clear.

In the first place, the requirements of adjustment to the social life into which children are born are beyond the capacity of the family. The children tend to "run wild"; that is, a perverted education tends to proceed with little reference to schooling. If the family is inherently capable of adequately schooling its children, the process would still require more time and energy than are available, and hence recourse is had to the private tutor or the private school. In the majority of cases, however, the family itself becomes inadequate to the task; that is, it "cannot keep up." The experience of many immigrant families in America is a case in point. The children so rapidly learn more than their parents that the former almost completely escape the family control and influence.

Much more common and fundamental, however, is the process described in the preceding section as characteristic of the rapidly growing American city. A striking instance is found in the rapid decay of the Roman family school, perhaps the most effective on a large scale of which we have any record. Within a very brief period following the early Mediterranean conquests, the decay of the family began to attract the attention of Roman publicists. They bewailed the increase of "corruption," and usually attributed the process to increasing luxury. The truth of the matter seems to have been, however, that Rome neither then nor at any later time had a school organization capable of dealing with the sudden increase in the complexity of life and of assimi-

lating the children of immigrant peoples. Of course her slave system, and the society which inevitably grew up on a basis of non-Roman slave importations, made the problem extremely difficult at best. There are few instances in our modern history of such well-meant and rather pathetic blundering with uncomprehended social situations as the persistent attempts of Roman statesmen to deal with the family by direct legislative process. One may perhaps venture to reiterate the principle that human society is inherently so unstable that a single unschooled generation, or at the most two or three such, suffices to cause profound perversions. Roman children and young people acquired much in the way of Greek and oriental erudition and refinement, but they learned something other than the fundamentals of that Roman life which had proved itself capable of the most virile and effective society the Western world had yet seen.

Emergence of the Public School.—The true *public school* emerges whenever a public purpose in the schooling of the younger generation becomes active within an organized group or in the government of the State or the Church. There is always present, as a distinguishing element, the purpose of utilizing such schools to determine the trend of social evolution or to conserve a valued culture. Thus the school does not become a public school in a critical sense merely by being open to the public in general. It has often happened, however, that schools have been established with a public purpose more or less in the mind of the founder, only to become nothing more than co-operative family schools for affluent or aristocratic families. Even in America where social conditions have been such, at least in the national period, as to afford least inducement for public schools to become essentially private schools, under the guise of public purpose in the foundation, there was for a full century a marked tendency for this process to take place. For a long time, even the tax-supported schools were in effect private schools in our use of the term. Even today, when schooling has become universal and the tax-supported school is by far the predominant institution, this

State school remains in the thought of many, if not most, citizens a private school which, it is true, has expanded to include all. In brief, the earmark of the private school is found in the principle that it exists primarily for individual benefit rather than for a social and public purpose.

The activities of the shamans among the North American Indians in preparing young boys for the tribal initiation ceremonies constituted a public school. Similarly, the practices of women found among many primitive peoples in co-operating in the training of the girls, not their own daughters, for the girls' functions in society amount to a public school.

The Talmudists, in taking over or supplementing the activities of the severe Hebrew family, set up a school with marked public-school features.

The whole Spartan régime was little more than a national public school.

The Protestant Reformation was in its very nature singularly productive of public schools, and the rise of the powerful and extremely effective Order of Jesus was in considerable part a response to the requirements of public schooling as part of the machinery of the Counter-Reformation.

The parish schools of Scotland, dating from the first part of the seventeenth century, were public in their import, and seldom has there been in history a better illustration of the possibilities of the public school in rapid and profound modification of the whole structure of society.

Thus the public school in its nature and purposes represents a collective response to the principle of transmission of culture which underlies all societal evolution and it likewise represents the polar opposite of laissez faire in the conduct of human affairs.

In the United States we use the term public school as a synonym of what in reality is the *State school.* In common parlance, that is well enough, but, in critical thinking about the nature and functions of the School itself, it is unfortunate. It is one of the

many confusions in political thinking which arise out of our practice of calling the commonwealths in our federal republic "states." If a newspaper should refer to a state school, practically everybody would think that a normal school or school for the feeble-minded or school for the blind was meant, because these are commonly maintained by the state government as distinguished from the local school district. Even the term "tax-supported" will hardly do, for government frequently makes appropriations to educational institutions which are not in any true sense public schools at all, much less State schools. Further, a school established and maintained by a state government, whether in America or abroad, is not necessarily a State school. It is commonly a public school but it may be, and frequently has been, a Church school. Not infrequently the beneficiaries of state appropriations are essentially corrective or custodial agencies indiscriminatingly called "schools" for purposes of convenience. The State school, however, critically defined, is in essence a school established and maintained by government primarily for a *civic purpose,* that is, for the perpetuation of the Civil State, that is, for the maintenance of civilization. The "public schools" with which we are familiar are nearly all State schools, at least in law, albeit most of them have little administrative relation to any of our forty-eight commonwealth governments.

The State School.—To investigate the origin of State schools would take us far afield and contribute little to our present theme. Suffice it to say that after the emergence of the modern national state, enlightened statesmen came to see that the public school could be made a powerful agency in augmenting the national strength and resources.

Thus the Massachusetts Acts of 1642 and 1647 not only declared the essential purpose of the State school, but succeeded in establishing a system of State schools. Martin's[1] analysis discloses the principles upon which these acts rest:

[1] Martin, *Evolution of the Massachusetts School System,* pp. 8 ff.

1. The universal education of youth is essential to the well-being of the state.
2. The obligation to furnish this education rests primarily upon the parent.
3. The state has a right to enforce this obligation.

It is not too much to say that the State schools of America, which in essential purpose go back historically to these two acts, have been probably the largest single agency in the shaping of the American commonwealth. And it is worth noting that the nineteenth century was well into its second quarter before the New England principles had come to be widely accepted in America, save in those states which had been settled by populations of New England origin.

Thus the American State school was a response to the requirements of a democratic society in the schooling of future citizens, in the transmission of civic learnings from one generation to the next. Nevertheless, the State school is not necessarily an instrument for the peculiar uses of democracy. Unless we except ancient Sparta, there is probably no instance in history in which a state has utilized the school as an agency in government more effectively than did the German states, and especially Prussia, in the period following the Napoleonic Wars and continuing down to the present.

The State school, which is today by all odds the dominant type, is a very recent institution. It is nothing if not universal in its purpose, for it owes its origin to the principle that the masses of the population determine the structure of sociey. If you are an autocrat and believe that it is best that society should be stable and unprogressive, you provide for State schools which will regiment the rising generation into an acceptance of the world as it is. Experience shows that it can be done. If you are a democrat and believe that society should be stable and progressive, you try to establish schools which will both discipline the younger generation and generate intelligence about the world. Experience shows that this can be done, too. The ultimate factor in establishing and expanding the State school is universal suffrage. Not only will

electors vote themselves schools, but leaders see clearly that only an educated electorate is a safe electorate, safe to themselves and safe to society in general.

III

AN UNDERSTANDING OF THE SCHOOL ESSENTIAL TO AN UNDERSTANDING OF ITS ECONOMICS.—It is quite impossible to understand the economics of the School, or to set up any intelligent methods of managing the school money, apart from a clear apprehension of the essential nature of the State school and of its function in society. The actual money cost of maintaining State schools in the United States is normally about one-fifth of the whole governmental expenditure, federal, state, and local, and the proportion tends to increase rather than diminish. The fact that political economists seldom seem to be aware of the School is in itself evidence of the fact that the State school on a colossal scale is still a very recent development.

The family school has no separable economics, for the reason that the cost is absorbed in the general family expenditure. Similarly, there is no political economy of the private school, as we are using the term, since the private school is a mere extension of the family school.

In nations and times in which the public school depends for its support upon the generosity of the king or the legislature, in years in which there is money to spare for the use of humanistic and literary and scientific institutions believed to be an ornament to the existing reign or government, there is no more an economics of the public school than there is an economics of the royal yacht or the state theater. The terms "subvention" and "grants-in-aid" frequently found in the literature of school finance are relics of what may be called the adornment-of-the-nation conception. Nobody speaks of grants-in-aid as applied to the support of the courts or the army.

When the only purpose and motive behind the support of schools is that of individual benefit, according to the caprice of

those seeking it, the tax-supported school is simply an example of a very crude communism. It matters not whether an affluent commercial and professional class succeeds in securing public funds for the maintenance of tax-supported private schools or the great wage-earning class votes itself money for elaborate school buildings as public entertainment parks, the result is the same and the result is a communistic enterprise under the guise of a State school. In neither case can such school systems serve the essential purpose of the School in society, save by chance.

Can we Afford a School System?—The question is frequently raised, Can we afford our schools? If the question is applied to the schools maintained by a multitude of local communities, the answer often is no. If the question refers to the ability of the nation, it is meaningless. In the self-governing society which exists today, as well ask, Can we afford government or even life itself? We have to go on for the sake of mere existence. We have to learn how to build a school structure which is effective for the original purpose of the School and at the same time is economically feasible. When we have found the one, we shall probably have found the other.

READING REFERENCES

There is much material in print dealing with the history of education, but comparatively few works in which the story is brought together in systematic form. Still less has the evolution of the School as a social institution received the attention of scholars. The limited list of readings cited here should prove helpful in justifying and expanding the thesis of the present chapter.

Counts. *School and Society in Chicago.* 1928.

An excellent piece of social fact-finding and interpretation of the forces which led to the breakdown of school management in the city in 1927–28. By implication, it illustrates the processes which, continuing for more than a generation, account for serious disruption of civil society.

CUBBERLEY. *Public Education in the United States.* 1918.

Rather more than half of the work is a very useful exhibit of the essential facts relating to the origins and development of the public school in the United States. The remainder is largely a history of pedagogy.

———. *Readings in the History of Education.*

The works of Cubberley and Monroe are probably the best comprehensive and interpretative accounts in English.

———. *The History of Education.* 1920.

JUDD. *The Psychology of Social Institutions.* 1926.

An extremely significant interpretation of the evolution of the methods by which Man has learned to understand and react upon his world and through which civilization has become possible.

LETOURNEAU. *L'Evolution de l'éducation.* 1898.

From the Bibliothèque Anthropologique and probably the most comprehensive account of the evolution of the School down to the modern period.

MARTIN. *The Evolution of the Massachusetts School System.* 1894.

A brief but illuminating study of the development, as reflected in the statutes, of that school system which is, more than any other, the parent of American state systems.

MONROE. *Source Books in the History of Education.* 1906.

———. *Text-Book in the History of Education.* 1905.

See above.

CHAPTER II

THE ECONOMIC FOUNDATIONS

The successful and prosperous modern State holds its title to well-being through an effective school system of some sort. In the event of disaster it recovers, provided it has this or some equivalent means of conserving and handing on the essentials of a sound civilization. Effective schools are primarily schools which reach the masses of the population, and none but State schools are ordinarily capable of achieving this purpose. Nevertheless, particularly in a democracy, in which both school attendance and the means of supporting schools are primarily economic in import, the development of schools is determined by the existing economic conditions and in turn prosperity in the economic sense is intimately tied up with the effectiveness of the school system. Those writers who would account for American prosperity in terms of our natural resources and geographic position alone seem to be singularly unaware of this relation of interaction to which reference is made. There will readily occur to the reader regions noted for rich natural resources, and favorable location, and either no schools at all or poor schools, which are still economically weak and socially primitive. The American State school, as we know it, is, however, the product of a process of social and economic evolution and in many respects the product is unique.

I

Enrolment.—The first prerequisite of any possible effectiveness in the public school is enrolment and regularity of attendance. Noble passages may be written into constitutions, schools may be established, and school legislation enacted, but if children cannot or will not enrol and attend, there is no School. The schools may still be very inefficient, and therefore ineffective,

even though they enrol 100 per cent of the school census and maintain under compulsion a daily attendance of 100 per cent. Or they may be extremely efficient and still ineffective because they reach only a fraction of the educables. The situation in respect to enrolment and attendance during the last half-century and more is exhibited in Table I.

Enrolment Statistics Break at 1900.—The exhibit for 1870 represents the first regular collection of school statistics. One can attach little reliance to the accuracy of the figures for the first few decades, but all the evidence obtainable points to the conclusion that they do furnish us with a veracious picture of conditions in general, so far as figures can be made to tell the story.

One would like to carry the reckoning backward in order to learn how the social and economic history of the United States is reflected in school enrolment. We have no regularly collected statistics, but we do here and there encounter estimates. Some of the most illuminating are to be found in Commons, *History of Labour in the United States*. In Part II, chapter i, of that work are quoted estimates made by the Public School Society of New York in 1829, to the effect that 24,200 children, from five to fifteen, in that city were not attending any school whatever. In 1850, this age group as a whole was 25 per cent of the national population. Assuming that the percentage was not very different in 1830 and not markedly peculiar for New York City, there must have been approximately 50,000 children in the age group in the city in 1829. Population, New York City, 1830, 202,589. It would appear then that about 52 per cent of the children considered were in some sort of school. The cautious reader will bear in mind that these figures have no quality of precision. The percentage of a given age group in the population varies somewhat, particularly as between city and country. The figures, however, can be relied on to give us a rough picture of conditions as they must have been at the period mentioned.

Similar estimates for 1833 were to the effect that 1,000,000

TABLE I

Enrolment 1870–1926

Continental United States	1870	1880	1890	1900	1910	1920	1924	1926
Population	38,558,371*	50,155,783	62,622,250	75,994,575	91,972,266	105,710,620	112,078,611	117,135,000
Children 5–17 years, inclusive	12,055,443†	15,065,767	18,543,201	21,404,322	24,239,948	27,728,788	29,345,911	30,064,621
Percentage 5–17 age group is of total population	31.3†	30.1	29.6	28.3	26.4	26.3	26.2	25.6
Pupils enrolled in public (State tax-supported) elementary and high-schools	6,871,522†	9,867,505	12,722,581	15,503,110	17,813,852	21,578,316	24,288,808	24,741,468
Percentage of total population so enrolled	17.8†	19.7	20.3	20.4	19.6	20.4	21.7	21.1
Reduced to comparable basis	17.8‖	20.5	21.5	22.9	23.2	24.3	25.9	25.8
Percentage of children 5–17 years of age who are enrolled	57.0†	66.0	69.0	72.0	73.0	78.0	83.0	82.0
Percentage of children 5–17 years of age who are in school every day	34.0‡	41.0	44.0	49.0	53.0	58.0	67.0	66.0
Percentage of public school (as above) enrolment in high school	1.2†	1.1	1.6	3.3	5.1	10.2	14.0	15.2
Registered collegiate students, state and private colleges and universities	§	.....	65,274	104,098	174,213	341,082	486,299	595,458
Percentage of total public school (as above) and collegiate enrolment in college and university	.....	.....	.5	.6	1.0	1.0	2.0	2.4
Enrolment in private and parochial elementary and secondary schools	.....	.....	.....	.....	.....	.....	.....	2,438,725†
Percentage of total population known to be in schools, lower and higher, but not including schools for adult education, and not reduced to comparable basis as above; compares with 21.1%	.....	.....	.....	.....	.....	.....	.....	24.0
Mean number of days in the school year	132.2	130.3	134.7	144.3	157.5	161.9	.....	.....
Mean number of days attended by pupils enrolled	78.4	81.1	86.3	99.0	113.0	121.2	.....	.....
Mean number of days attended by pupils enrolled in 5–17 age group	44.7	53.1	59.2	71.8	83.0	94.3	.....	.....

* Fourteenth Census and estimates for 1924 and 1926.

† United States Bureau of Education, *Bulletin* (1927), No. 39.

‡ Computed from preceding on the assumption that the percentage of attendance for age group 5–17 could not have been materially different from that for total enrolment.

§ United States Bureau of Education, *Biennial Survey* (1924–26). Does not include graduate or professional enrolment.

‖ It will be noted the percentage of children 5–17 in the population has been declining. Unless account is taken of this fact, the percentage of population enrolled is misleading. The reduction to comparable basis shows what percentage the enrolment would have been of population had the percentage of children remained as in 1870.

children in the United States were not in any school. There must have been approximately 3,000,000 children, in the age groups counted, in 1830. If then the estimates were good, 67 per cent of the age groups five to fifteen must have been in school. And of course this was a period during which schools for negro children were nil. Even as recently as the eighties, we find in the state and federal reports extended laments that attendance refused to improve and was even falling off. Scattered fragments here and there lead to much the same conclusion, which may be stated roughly as indicating that in the thirties, when agitation for child protection and better schooling was in its infancy, perhaps from 50 to 60 per cent of the children were in school for some part of the year. This comports interestingly with the statistical returns for 1870, but, be it noted, 57 per cent of the age group five to seventeen means much more than the same percentage of the age group five to fifteen. Further, the figures for 1870 are for public schools, i.e., State schools, while the earlier figures are for all schools. We have no means of checking on the accuracy of the earlier estimates, but agitators are never prone to understate their cases. It is fairly clear that on the whole there was probably no very marked change in the enrolment until after the end of the nineteenth century, or until the percentage in high school began to gain on the total enrolment. It will be noted further that the pronounced breaks in the growth curves for mean number of days in the school year, for mean number of days attended by pupils enrolled, and for mean days attendance in the five to seventeen age group, all occur at 1900, the same census epoch at which the recent development of the high school begins.

Evidence from Illiteracy Record.—The evidence from the statistics reporting the percentage of illiteracy in the population is to much the same effect. The exaggerated importance attached to the percentage of illiteracy in the population in recent years is testimony to unsophistication touching the meaning of the schooling of the masses in the minds of publicists, who sometimes seem to think that minimum illiteracy is the touchstone of

national culture. Nevertheless, primary inability to read and write is not only evidence that the people thus handicapped never had any substantial schooling at all, but that many more were actually unschooled, since the motive for this primary intellectual attainment is so powerful that a great many people reach it without regard to schooling.

The illiteracy statistics are unsatisfactory at best, partly because of the difficulty in defining illiteracy with sufficient accuracy to guide the enumerator, and partly because statistics for the whole period beginning with 1840 are not strictly comparable. The whole matter is discussed in detail by Hill, in connection with the exhibit found in the reports of the Twelfth Census, and by Leigh in the *Report of the United States Commissioner of Education for 1870*. The figures for the earlier decades are known to be underestimates, though the direct evidence hangs largely on a message of a governor of Virginia in 1839; but the systematic examination administered to enlisted men in the army tests of 1918 showed that the enumeration of 1910 was at least as great an understatement as the wildest claims of the school propagandists of the middle of the nineteenth century for the understatements of 1840, 1850, and 1860.

I have used the term "primary illiteracy" to mean the evident inability to read and write at all which would be revealed, either by the admission of the person enumerated or by the crudest kind of test. There is a much more common form which we may describe as "secondary illiteracy," in which there is undoubted ability to write one's own name and simple sentences and apparent ability to read, but inability to react intelligently to the printed page or to use handwriting readily as a vehicle of continuous discourse. This last form is elusive, and there are cases in which it is found in students enrolled in higher institutions of learning. The census enumerator catches mainly the primary form, although the dividing line between primary and secondary is vague. In the nature of the case, the enumerator tends to turn in a very conservative report and we may believe that the recent

reports are nearer the truth than the earlier ones. Nevertheless, despite the inaccuracies known and acknowledged, we may reasonably infer that the comparative figures from 1840 to 1920 enable us to form a rough picture of the testimony touching the probable trend of school attendance which illiteracy statistics have to offer.

In 1840, the percentage of illiterate whites *twenty-one years of age and over* was 9 per cent. In 1850, it was 10; and in 1860, 9.

From 1870, the percentages of illiterate whites, *ten years of age and over,* were as follows:

1870	11.5	1900	6.2
1880	9.4	1910	5.0
1890	7.7	1920	4.0

Now we have two sets of figures here which are non-comparable. In one the ages enumerated begin at twenty-one and in the other at ten. However, since a percentage is computed with the large numbers in the age groups concerned as bases, the discrepancy cannot be very great when we are dealing with numbers the highest of which is 11.5. Further, since the tendency is for the higher age groups to show a heavier illiteracy, the inclusion of ages below twenty-one in the figures for 1840–60 would probably have tended toward a relative lowering of the percentage. Hence we are on the whole justified in using the percentages found since 1840 as giving us a fairly good picture of the trend, so far as it is an index of the relative extent to which schools of some sort had been reaching the masses prior to 1870 and were doing so from that date. For readier comparisons the figures are here brought together:

1840	1850	1860	1870	1880	1890	1900	1910	1920
9.0	10.0	9.0	11.5	9.4	7.7	6.2	5.0	4.0

Thus, again, it is easy to see that the break comes after 1880. Something began to have its effect at about that time, in the face

of a rapidly increasing population, to check the recruitment of the primary illiterates. It is to be noted that the more illiterate immigration began after, rather than before this break. In recent years, and especially since 1917, there has been, of course, a more or less systematic drive upon the adult illiterate, but with that we are not concerned. In 1920 the percentage of illiteracy in the ten to fourteen age group had been reduced to 2.3, which is near the vanishing-point.

Proportion of Pupils in Higher Schools.—Altogether the most significant figures are those which reveal the sudden increase in the proportion of pupils attending the public high schools in 1900. A more careful scrutiny of the figures will make clear the point that up to 1924 the increase was accelerating. From 1870 to 1900, for every 100 pupils enrolled in the public high and elementary schools, more than 98 were in the latter and less than 2 in the former. In 1926, for every 100 pupils similarly enrolled, about 85 were in the elementary and 15 in the high school.

Now, if we use the eight-four distribution of grades or classes as between the elementary school and the high school, evidently the gross saturation point[1] of the high school would be at one-third of the total enrolment, when the latter has reached saturation point. This ratio is subject to somewhat complicated corrections, but in brief the true saturation point of the high school is at from 27 per cent to 29 per cent of the total elementary and high-school enrolment on an eight-four basis. That is to say, if all children in the United States were attending school and in due season graduating from high school, there would be from 71 per cent to 73 per cent of the enrolment in the eight-grade elementary school, and from 27 per cent to 29 per cent in the four-year high school at any one time. The distribution of children into high school is more than 50 per cent along the road to the saturation point.

[1] The saturation point is defined as that point at which enrolment ceases to increase save as the general population increases, or as the point beyond which the curve of increasing enrolment parallels the curve of increasing population.

To those whose apprehension of this particular situation was formed thirty years ago, these facts must seem incredible; and they do indeed point to a veritable social revolution. When we recall the flourishing condition of the academies dating from the early part of the nineteenth century and the old middle-class public high schools, it is easy to believe that the percentage of the total enrolment which could be attributed to high schools and academies from 1810 to 1860 was at least as high as, and perhaps higher than, the percentage similarly found from 1870 to 1890. It is not surprising that after a century of experience with a school situation in which the outward appearance revealed only 1 or 2 per cent in the high school, and over a third of the children of common-school age in no school at all, men had come to believe that the situation was a revelation of something inherent in human nature itself. The ideology thus established has apparently carried over and has profoundly affected our current views of humanity and of the school processes themselves.

Percentage of the Five-to-Seventeen Age Group in School.—A corollary is the percentage of the five-to-seventeen age group in school. The percentage in high school is after all to some extent a reflection of the way in which the masses of the younger generation satisfy school requirements. Not so in the case of the enrolment of the age group which is typical of the whole school period. The percentage of this group in school has risen from 57 per cent to above 80 per cent. Now a considerable number of children are not susceptible of schooling, by reason of mental and physical infirmities, and are not in fact found in the enrolment. The tendency, of course, is to enrol these children somewhere in the schools if possible, on humanitarian grounds. We have no complete statistics showing the percentage of the age group in question which is composed of children who are properly custodial or institutional and not school cases. It may be altogether as high as 2 per cent, or perhaps somewhat more. Be that as it may, it is to be noted that the age group which belongs to elementary school and high school together is getting to be

within reach of the point, for the United States as a whole, at which the whole group is in school as a matter of course.

The percentage of enrolment in the four-year college has gained more than fourfold on the total enrolment in elementary school, high school, and college during the last thirty-five years, and the college was in 1926 at about the same point which the high school had reached in 1895. The reader is reminded that enrolment in graduate and professional schools is not included in Table I. If we include the latter and add to it postsecondary enrolment in teachers' colleges, we arrive at the impressive total of 1,037,469.[2]

II

Explanations of Increased Enrolment.—Writers are prone to talk expansively about the influence of vague things which they call movements. The "romantic" movement, the "realist" tendency, the "spirit of democracy," the "humanitarian" movement, and so on are all supposed to have done things in the world. Accordingly, the remarkable set of facts which have thus been exhibited are interpreted as the remoter consequences of Jacksonian democracy. Or, again, it is held that our present abundant supply of pupils represents the ultimate triumph of the humanitarians and idealists who busied themselves at first with the abolition of slavery and the early temperance movement, and then sought more worlds to conquer by getting the children into school. If the latter is the case, there is a curious inversion in chronology in the fact that the first child who was brought into court for protection against brutality had to be described as an animal, since the law knew nothing of child protection but had been enlightened as to the humane treatment of the lower animals.

Agitation for Better Schools No Explanation.—There can be little doubt that a century of popular agitation for mass education and good schools was an essential prerequisite of the

[2] *United States Bureau of Education Bulletin* (1927), No. 40.

rapid change in the public attitude toward the schooling of the rising generation at public expense which became fully established at about 1900. Nevertheless, as we shall see, the phenomena of school enrolment which are exhibited in Table I are related to economic changes which made possible the dreams of the idealists. An understanding of that relationship helps us to understand the school money: a survey of the struggle itself contributes little to the solution of our problem, save as it makes clear the nature of the economic foundations on which the school money rests.

The New England colonies, and the westward migration which originated in New England in the national period, had an acute sense of the problem of the schooling of the masses. Nearly every generation produced its advocates of "the cause of education," some of them, such as Mann and Barnard, Stowe and Pierce, outstanding figures. But that is not to say that the children went to school. Some of them did, not because the law required attendance but because their parents sent them. Anybody who has had practical experience in the drafting and enforcing of compulsory attendance acts can read with understanding eye the discouraging reports even of the last quarter of the nineteenth century. A considerable proportion of the farmers and of the rank and file of the wage-earners had little desire to require their children to go to school, and besides they needed the children on the farm or else they needed the children's wages. The whole history of attempts at compulsory attendance and the regulation of the labor of children in industries exhibits a prevailing tendency to liquidate bad consciences with sanctimonious appeals to the principle of individual liberty.

The first third of the nineteenth century had passed into history before the middle and southern states had awakened to the need of tax-supported schools, save in the form of subventions and public charity. Some of the legislatures were awakened to the requirements of the situation in the thirties and forties, but their acts made little fundamental difference in the problem of

getting children into school and still less in the problem of keeping them there.

The schoolmaster who is convinced of the value of his vocation, and genuinely interested in it, is nearly always an ardent propagandist. As early as 1830 these people began to organize associations of regional or national scope, and the state teachers' associations began to appear in 1845. The annual meetings of these bodies were typically staged in a fashion which was calculated to attract public attention, and they must have had a cumulative propagandist effect.

Further, the influence of organized labor has very generally been thrown not only in favor of the education of the masses but in favor of getting the children into school; and this influence dates from the twenties. The labor union had a motive, or rather set of motives, which other agencies had not. In the first place, the union man wished to be treated like other people, and attendance laws, such as they were, tended to be class legislation in that they naïvely required employed children to receive an exceedingly attenuated schooling and made no mention of other children. In the second place, schooling was valued by the commercial and professional classes as a mark of social status. Now, as Professor Carver points out, the social stigma which goes with low wages is often as much a ground of labor troubles as the wage itself. The common school tends to smooth out class differences. Labor leaders have very generally been advocates of the common school and of general, as distinguished from special, education.

"The paramount emphasis laid upon education shows that the workingmen's movement [the early period] was a revolt primarily directed against social and political rather than economic inequalities. For the general system of education, which was the most important and most frequently repeated demand of the workingmen, meant primarily public schools free from the taint of charity."[3]

Finally, the founders of the republic themselves and statesmen in the next and following generations, such as Clinton in

[3] Commons, *History of Labour in the United States,* Part II, chap. ii, p. 223. Refers to the movement in Philadelphia.

New York and Grimes in Iowa, were consistently advocates of the schooling of the masses.

Altogether, if militant idealism unaided could have accomplished the result, the movement which was under way in 1900 would have appeared in 1850.

III

The Enlightenment No Explanation.—Nevertheless, a process of rapidly changing attitude toward various fundamental social problems appeared in the closing years of the nineteenth century, and the development has proved on the whole to be continuous down to the present. Professor Nevins, in *The Emergence of Modern America,* describes the newer life with great penetration and charm. Among other issues may be mentioned the whole humanitarian movement ranging from decent treatment of the lower animals to organized grappling with the problem of poverty; systematic attention to the problems created by the relation of capital and labor; attack upon political corruption; extension of the Bill of Rights in our fundamental law; increasing awareness of the reign of economic law. Now, most of these problems are centuries old and all of them at least one century. Idealists had been concerned with them throughout the ages. Why should there be any emergence of popular interest in such questions? Why should there have come about a wholly new public attitude on sundry points at issue? To quote Nevins:

> Only a "chromo civilization" could have produced the expansive people who, in 1876, could not see that Blaine's railway transactions, even if admitted, were to his discredit. "He showed his smartness in it," they said, "and that is just the smart man we want."[4]

Similar corruption today is condoned by few, and the communities which do tolerate it are looked upon as being unsophisticated rather than corrupt.

In our present problem we are concerned with this appearance of a new level of civilization, chiefly because it on the whole

[4] P. 227.

coincides with the period of increasing enrolment. Are the two related as cause and effect? If so, the expansion of schools could not have been the cause, for there has not been time enough for the effect of increased schooling to appear. That the same causes which produced the new order of things were also factors in producing the rapid expansion of the public school is altogether probable, but, as we shall see, they were not the primary causes.

Effect of Learning To Read.—We can, however, identify one powerful force which in all probability was more than any other the occasion of the period of enlightenment. Between 1850 and 1880 people had learned to read, as they had never read before—not the cultivated classes but the folk.

Judd has described the remarkable expansion in the extent of popular reading of all sorts which had appeared by 1880.[5] Like the rapid increase in the enrolment which began at about 1900, this expansion in the demand for reading material, particularly newspapers, was no slow growth—it was an abrupt change. The curve bends away from the earlier slope at a sharp angle and after 1880 begins to show the characteristics of acceleration. Why should people suddenly seem to become so avid of reading? The common people were not burdened with leisure, and the leisure class had always read, more or less, many of them profoundly as well as widely. If improved mechanical facilities were the explanation, the change should have come not long after the appearance of the rotary press in the forties. The answer without much doubt is the McGuffy readers, which first appeared in the fifties and rapidly went into very extensive use.

Before McGuffy, most children escaped primary illiteracy because they went to school for some part of the year, but very few of them learned to read. They could decipher a passage, but they could not read continuous discourse in such fashion as to derive pleasure or intellectual stimulus. McGuffy built a set of readers, on what we should today call scientific principles, with which children could be taught to read in the secondary sense.

[5] *Elementary School Journal*, XXIII, 253.

The outcome was one which can always be seen when an extensive change takes place in school processes, and when a sufficient proportion of the younger generation is in school: in about a generation a corresponding change appears in society. In brief, the generation which was dominant about 1880 had become a reading population, especially of current events and current discussion. Social problems which since Robert Owen's time and earlier had largely been limited for a hearing to the lecture platform and the political hustings could now be set forth on the printed page, read, and pondered by the greater part of a democratic society. No wonder that modern America emerged.

It is altogether possible that enlightened discussion of social problems in a relatively wide-reading population saved us from the catastrophe which might ultimately have resulted from the labor troubles running from the Panic of 1873 over into the new century, and that absorption of one-quarter of the population in the school enrolment would otherwise never have taken place. Nevertheless, it can hardly be claimed that the enlightenment in any of its phases was directly responsible for the significant expansion of the high school and college revealed by Table I. If such had been the case, the enrolment facts ought to have appeared twenty years or more before they actually did appear.

IV

Effect of Child Labor and Attendance Laws.—The most obvious explanation of the recent expansion of the school is enactment of legislation in the industrial states controlling or prohibiting the employment of children in the industries and of more effective school attendance laws. The connection seems clear, and yet careful consideration of the history of antichild-labor agitation, of the history of children at work and of the motives which set them at work, and of the relations of school attendance and child employment, leave little room for doubt that the obvious explanation is a confusion of cause and effect.

In the first place, the recent period of antichild-labor agita-

tion and legislation coincides with, and in part follows, the expansion of enrolment and does not precede. The National Child Labor Committee dates from 1904. The period of extended legislation came in the second decade of the twentieth century, as part of the movement of enthusiasm for social-betterment legislation which was a characteristic of the Roosevelt period, and not in the last or next to the last decade of the nineteenth.

Child-labor acts date from 1836, and some people had become aware of the iniquity of child exploitation before that date. But whether the public was in favor of the laws and against their enforcement or legislators were merely naïve as to the legal and administrative requirements of an enforceable act, it is nevertheless true that we were nearly in the debacle of the World War before we had learned such requirements.

> The first fairly adequate statistics relative to child labor were compiled in the census of 1870. At that time 739,164 children [1.9 per cent of the population] between ten and fifteen were reported engaged in gainful occupations, and nearly a sixth of these were in manufactures. Ten years later . . . . 1,118,536 [2.2 per cent of the population]. In 1900, 1,750,178 [2.3 per cent of the population] between the ages of ten and fifteen were reported. Over half of these, or sixty and two-tenths per cent . . . . in agricultural pursuits.
>
> In 1870, five and six-tenths per cent of the employees in manufacturing establishments were children; in 1880, six and seven-tenths per cent; and in 1900, three and two-tenths per cent.[6]

In 1870, 5.58 per cent of all employees were children and in 1890, 2.57 per cent.[7] The decade 1870–80 was the heyday of children in industry. The percentage increased 54 per cent and in the following decade fell off 34 per cent. When the period of real legislative enactment had arrived, the worst evils of child labor were ancient history.

The truth of the matter is that while some schoolmasters were interested in the reform, school people in general were either lukewarm or mildly opposed. Conversely, the child-labor

[6] Jennings, *Economic Progress in the United States*, p. 479.

[7] C. D. Wright, *Industrial Evolution of the United States*, p. 204.

reformers were only indirectly interested in school attendance. The acts as a whole were labor laws and social-welfare legislation.

Much the same story is revealed by compulsory schooling acts. While such acts may be found on the statute books from an early date in our national history, down to the beginning of the twentieth century they prevailingly covered but a part of the school year and were frequently matters of local option. Not all states, even at the present writing, have adopted universal and all-the-year acts. What is a good deal more important, the era of systematic enforcement is of very recent date even in the well-organized city school systems. While few statutes have been as frank as that of Tennessee, adopted in 1830, which made it the duty of district trustees "to induce all children under fifteen to go to school, as far as practicable," in effect most of them amounted to much the same thing, and over wide stretches of territory still do.

The increase in high-school attendance reveals the heart of the matter. While in a few states the child-labor and attendance laws operate to force some children into the four-year high school, in general such is not the case. For the nation as a whole, the high-school enrolment is but little affected by the vigilance of the truant officer, for the latter has no jurisdiction. And yet the increase in the ratio of high-school and college enrolment is by all odds the most significant revelation of our table.

Altogether it is fairly clear that the child-labor acts and the later compulsory-attendance acts are one of the manifestations of the "enlightenment," but are far from being the cause of the influx of children and young people in the schools. It would be reckless to say that it would be easy to administer schools if the attendance acts were repealed, and absurd to say that the schools would have expanded apart from the public attitude of which these acts are one of the expressions. Nevertheless, such acts would be of no more weight today than they were in 1875 were it not for a much more fundamental set of causes, economic in their nature, which have been at work.

V

The Absorption of Released Labor Hours.—Down to a period upon which we have hardly more than entered, attendance at school was limited by the fact that for the nation as a whole the labor of many children and most young men and young women, on the farm, in the household, and in the factory, was required by the struggle for the primary subsistence of the population. Those who were released from labor in favor of schooling were in effect carried on the backs of those who toiled. The wages of the children were required in the struggle of a large percentage of the families with primary poverty. The school enrolment began to expand, especially in the vertical direction, when the increase of machinery had begun to release man-hours beyond the absorption of man-hours in increased production; and when organized labor, in part because of the relief afforded by the free school, had become able to wield a bargaining power somewhat commensurate with the bargaining power of the employer. Of course there must be set over against these changes the invasion of the labor field by women, and especially married women. There are about four and a half million children and young people in school who, if conditions prevailing in 1890 were true today, would be competitors in the labor market. In 1890 there were about two and a half million in industry who today would be in school. There must still be more than three million, largely of high school age, who might be in school and who are competitors for a limited number of jobs. The total number of persons, ten years of age and over, in gainful occupations is set by the Fourteenth Census at about forty-one and a half millions. The figures tell their own story.

Youth Required in Primary Production.—American farm labor from the beginning has tended to be typically family labor. In the northern states, hired labor might be present to some extent throughout the year and to a large extent at harvest time, but the fundamental burdens were family burdens, in the household and in the field and farmyard. Farm children everywhere at the best went to school when they could be spared. Our

long summer vacation in the schools is a leftover from the seasonal character of farm labor. As late as the nineties, some of the northeastern colleges provided long winter vacations to meet the demand for erudite and muscular students as teachers in country schools during the slack time of year.

Until the very end of the century, the westward migration was still under way. While it is true that in general the schoolhouse followed the pioneer, it is far from true either that the attendance of children was regular or the school year in the common school long enough to make progress of the children in large numbers into the higher schools likely or possible. Even the young children must help in the pioneer struggle, and youth took up the burden of production much earlier than is the case today. As soon as rural migration spread away from the first settlements, the American farm began to take on its peculiarly isolated character as contrasted with the village settlements of the European farmer. This practice has made it administratively difficult to maintain rural schools over the larger part of the country, even down to the present day. Attendance was often meager because there were no accessible schools. The solution in the form of the consolidated school did not become thoroughly practicable until the era of good roads and feasible transportation had arrived.

Further, the period of household manufacture did not come to an end until after the Civil War, and traces of it could be found much later. Forman quotes the census of 1880:

"They [some women from the mountain section of Georgia at the Atlanta Exposition spinning and weaving coarse cotton cloth] were representatives of a large section of the United States and of a very considerable population, variously estimated at from 200,000 to 300,000 in number, who have not been reached until lately by the railroad, or been able to avail themselves of modern arts to any great extent. . . . . Two carders, two spinners, and a weaver could produce eight yards of coarse cotton cloth in a day of eight hours. The same number of persons employed in modern cotton factories can, by the use of machinery, with far less arduous labors, produce eight hundred yards of the same cloth."[8]

[8] Forman, *Rise of American Commerce and Industry,* p. 194. See also *Recent Economic Changes,* I, 83.

Well within the present century the writer has seen the distribution from the factory of partly finished shoes to be made up in homes scattered over a wide territory. The reader will recall such home industries as paper-flower-making and the like described in the child-labor literature of twenty years ago. Whenever goods were made in the home, the labor of children, even of young children, could commonly be advantageously utilized.

The extended use of farm machinery, and especially the use of the gasoline engine on the farm, has had marked effect on school attendance in two different directions. In the first place, there has been a release of labor-hours in the household and in farm operations. A second, and probably much greater effect, has been the well-known migration to the cities consequent upon machine production of agricultural goods. Many million children today are in city schools who under the conditions prevailing in 1880 or even 1890 would be living in the country without easy access to schools, and especially high schools; and, even when schools were accessible, their services would have been required on the farm.

Children and Youth in Industry.—But in the industrial city is the most conspicuous instance of the absorption of released labor-hours in the school enrolment. An adequate treatment of the subject would require a volume, but the process can be set forth briefly perhaps with sufficient accuracy and clarity to serve our present purpose; and we may well begin with the child-labor section in Hamilton's report of 1791.[9]

> It is worthy of particular remark, that, in general, women and children are rendered more useful, and the latter more early useful, by manufacturing establishments, than they would otherwise be. Of the number of persons employed in the cotton manufactories of Great Britain, it is computed that four-sevenths, nearly, are women and children; of whom the greatest proportion are children, and many of them of a tender age.

We seem to see the fat man with the dollar marks on his clothes.

And yet in that single passage is a foresight of much of the

[9] Hamilton's *Works*, III, 207.

industrial history of the United States, provided we read the passage with some understanding of the problems with which the great finance minister was grappling. There are two sides to the picture. Looking at one side, we see sordid greed at its basest, and the greed was doubtless there, ready to reap whatever it could. But turn the picture and there appears a new continent, and men, women, and children who must be fed, clothed, and sheltered in some degree of civilization. To accomplish that end, men, women, and children must work and produce, and they must produce at a price which would enable manufactured goods to enter the channels of trade. Individuals might become wealthy from the toil of children of tender age: that was perhaps part of the cost. Hamilton probably gave little heed to that side of the matter. Few in any station in life in those days did. More than a hundred years of checkered economic experience were destined to pass before the American people could learn that this feature of Hamilton's proposals implied anything but a sound society, and they eventually learned not from precept but by working out a new kind of economic basis, different from anything which Hamilton or the men of his time could possibly have foreseen.

American Insistence on High Standards of Living.— It is perhaps not too much to say that the cardinal fact in our economic history is not our resources or geographical position, or form of government, but rather the circumstance that, apart from negroes brought into slavery, nearly every family which has ever come to America has done so for the purpose of bettering its lot in life. Possessed of that purpose as perhaps the most vital thing in their lives, they handed it on in the behavior patterns characteristic of family life to children and grandchildren, until getting on in life, elevating the standard of living, became a veritable American religion. Intimately connected with this all but universal characteristic of the American immigrant has been the further fact that for the first time in centuries people were released from the restraints of folkways in which there was always in the background of habit a caste system of one sort or another.

Tendencies to revert to the European system of gentry and commons have with us been short-lived and abortive. But to subdue a continent, maintain civilization, and still keep the standard of living rising required the expenditure of a sum-total of energy almost beyond comprehension. That energy had to be found either in labor or in machinery, or in both. From the standpoint of the population as a whole, the problem was one of highways, railways, and canals; of the maintenance of manufacture; of the currency; of the devising of an effective credit system. From the standpoint of the family it was one of wages and family income. From either standpoint it was a question of unremitting toil for nearly everybody who was capable of laboring at all. In sections in which people were prevailingly indolent, poverty, as poverty was known in Europe and the Orient, was not the penalty but rather a degeneration to the normal economic society of the men of the stone age who had previously formed the population.

Leaders in thought, idealists, and constructive statesmen, from the inception of the factory system, were not unaware of the evils of the use of child labor and of the neglect of schooling. The plain truth of the matter, however, is that the people who were chiefly concerned desired child labor because they wanted the earnings of their own children. That state of affairs lasted over into the twentieth century and, of course, still persists in some of the states.

In the *Connecticut School Report* for 1866, prepared by D. C. Gilman, who was certainly a reliable witness, occurs the following passage:

> In many cases the proprietors or agents of manufacturing establishments would willingly see the provisions of the statute sustained, but they are well aware that the law is not obeyed through the state, and are apprehensive that they shall lose both parents and children as operatives if they refuse the latter work.

The passage refers to an act of 1842 which required that no child under fifteen should be employed until he had attended school at least three months of the year preceding any and every year so employed.

The present writer is perhaps a competent witness. He was head of the state education office in one of the textile states, New Hampshire, from 1904 to 1917. He entered upon his duties with all the zeal of the social reformer combined with that of the schoolmaster. He was soon to be obliged to learn two things: first, that the enforcement of the existing law in that state and the neighboring New England states was at that time something of a farce; and, second, that his real problem lay, not with the large employer, but with the small employer, with the exploiting parent, and with a padrone system which had grown up to meet the latter's requirements. Further, the large employer had precisely the same story to tell which the Connecticut mill men had told Gilman a generation earlier—and the story was founded on fact. The labor of the children in itself had for the most part become unprofitable, but it was a condition precedent to retaining the parents, who would otherwise migrate to less exacting regions.

The root of the matter seems to have been that the employment of children and youth in the industries, and the rather meager and abbreviated schooling which went with it, continued until the gain of machinery upon the expansion of production had brought about a period in which the labor of children was no longer required. A correlated change in the mores is to be noted. Economic breeding of children fell off, and with it went almost the last vestige of the ancient *patria potestas*.

Mechanical Devices Inevitable.—It is no accident that the American people early became distinguished for mechanical invention, nor is the facility in that field which has here been achieved to be attributed to inherent cleverness. The pressure of the circumstances under which people were living on this new continent, and particularly the fact that they had brought an advanced civilization with them, meant that they early turned to mechanical devices as a solution of the problem of conquest and production compatible with that civilization. The process has gone on at an accelerated rate as one after another fundamental machine has been perfected, until both in the household and in

industry by far the major part of production is performed by machinery. It is perfectly true that in the earlier stages of the Industrial Revolution the introduction of machinery did very little permanently to release labor hours, for the chief effect was to expand production. Again and again, expansion was furthered by the broadening of the national market through railway-building and through improved methods of merchandising. Following the Civil War, and again in the second decade of the present century, great improvements in the financial organization of society of course contributed. But the time was bound to come, as it did come at about the turn of the century, when mere expansion in production would cease to take up the labor-hours released by machinery. The chief mechanical factors in the final release were probably the gasoline engine and the perfection of many kinds of electrical apparatus.

Adequate Production.—In 1791 there were far from enough of the good things of life to go round. In 1891 there were enough *at a price*. In 1925 practically every family might have an automobile, and my lady could scarcely be distinguished from her maid in taste and quality of wearing apparel. The continent had been conquered, a mechanical slave system had become established, and productive energy could be applied almost entirely to the improvement of the general standard of living. One-quarter of the population could be released to go to school.

The Free School.—Now, perhaps the most critical social factor in the present economic situation in America is the free school. The boy can go to school, at least through high school, because his father has no tuition bill to pay and the boy's subsistence can be absorbed in the family budget. If depression should come and the father should lose his job, there is little occasion for taking the children out of school, for if father is jobless it is not likely that son can be taken on. As a matter of fact, industrial depression tends to augment school enrolment and unusual activity to depress it.

VI

Implications as to Further Development.—We are thus in a position to entertain some reasonable views, first, as to the permanency of the enrolment situation exhibited by Table I, and, second, as to its probable further development.

If the evidence which has been presented is valid and the inferences as to its meaning sound, it appears to follow that we can expect the present enrolment situation to be essentially abiding. It will doubtless fluctuate and there may be temporary shrinkages, but they will come from causes not connected with the underlying economic conditions. For example, the purely financial aspect of managing schools is likely to cause dislocations in local school systems and perhaps some temporary shrinkage in enrolment at the high-school level. But in the main the enrolment is a feature of modern American economics, and it is not likely to retreat unless machine production should be given up in favor of hand production, and unless organized labor should lose its bargaining power.

On the contrary, the process is likely to go on, as machine production continues to accelerate, probably not to the extension of the period of schooling in years but to the continued expansion of the high school and portions of the college to their saturation points.

In brief, we are cashing in on the products of the Industrial Revolution. The stubborn question, Why should not all men share in the good things of life when the labor of men at the machine is ample to provide for all? is being answered for the first time in human history. It is not being answered by the excessive shortening of the working day and week, but by the release of youth for its education and of age for its due retirement and leisure.

VII

A Sound Economic Basis.—We are further in a position to answer the primary question with which a study of the school money is concerned: Is the economic basis on which modern

society in America rests one which makes possible the universal schooling of children and young people up, let us say, to the age of eighteen or perhaps twenty-one? The enrolment itself is the best answer, for it is primarily the economic structure of society which has put the children and young people in school. The possibility of universal education is primarily a matter of getting the children into school, and the latter in turn rests upon the issue, Can enough of the population be spared from the production upon which the standard of living rests to enrol as pupils and to be set apart as teachers? Down to about 1900 no such release as would amount to universal education had ever been possible: since about that time it has increasingly been possible and is today probably entirely possible. More than that, the only permanent solution of the unemployment problem, as the invention and extended use of new machinery continues to release labor, beyond the requirements of expansion into new callings, is a school system which automatically takes up such release.

The setting up of a financial organization for the gathering of revenue in money and the wise disbursement of the funds so gathered, such that economic possibilities can be converted into effective schools, is quite another problem. We shall therefore turn next to a study of "The Financial Foundations."

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CHAPTER III

THE FINANCIAL FOUNDATIONS

But where will you get the money? Money with which to pay teachers, buy fuel, provide buildings, and pay for books and equipment? Taxes are high and the endowment collector is abroad in the land. Seemingly, the more we collect the more we need. Schools are essential and there are goods and services enough to go round. The more children there are in school, the more prosperous we are. But money comes hard. There is either some flaw in the reasoning developed in the last chapter, or else we are a rich man with financial diabetes.

In truth we are confronted by a situation which has puzzled students of the existing organization of society in all its implications, and legion are the quack remedies proposed by people who dislike to study at all. There seems to be little doubt that in a nation like modern United States there are services and commodities at least potentially available to an extent sufficient to enable all to live at a standard which comports not only with adequate food and raiment and shelter but also with reasonable leisure and enjoyment of the refinements and the culture which have been accumulated by the toiling generations of the past. And yet, while poverty on the scale found in many of the older nations is all but unknown in America, still poverty exists and an undesirably large part of the population lives near the poverty line.

The public schools and the universities are in no different case. With an economic foundation which abundantly justifies the setting apart of one-quarter and more of the population as pupils and students, and probably 2 per cent and more as teachers, it is still hard to find the money with which to set them apart. In brief, the financial organism which has evolved and upon which we must rely to give effect to fundamental economic pos-

sibilities is a very different matter from the economic basis itself. Fifty years ago any such enrolment as we carry today would have been impossible, not because there was not enough money but because there was not productive capacity enough. Today there is in all probability productive capacity enough to carry a normal enrolment materially larger than that with which we are familiar. Is there any similar fundamental condition in the flow of credits, money, incomes, exchanges, and the like which make up the financial organization of society? We cannot answer the question with the same confidence which we can feel in the answer to the problem proposed in the preceding chapter. But we can perhaps make some progress in our analysis, gain at least some light on the terms of the problem, and thus foresee the lines along which betterment and, it may be, ultimate solution can be found.

I

Wealth and Income.—In contemplating the resources in money which may possibly be tapped for the support of schools, the schoolmaster is prone to center his thinking upon the term "wealth." He hears much of boundless wealth; he notes every year prodigious figures which record the annual increase in the nation's wealth; he sees all about him, especially if he is something of a traveler, evidences of wealth. Further, he is confronted from time to time in his professional reading with bar graphs which reveal the *annual increase in wealth* as a heavy black line extending across the page and the *money expended* for schools as little more than a dot at the left. Not unnaturally he receives an impression of materialism run rampant and a spiritual life all but ignored.

Now, wealth means lands and the betterments thereon, forests and mines, machinery, vehicles, personal belongings of all descriptions, food, and other commodities in stock. It also means money in hand or in safe-keeping. There are sometimes added items, like certificates of shares in corporations, bonds, mort-

gages, which are not wealth at all, but only evidences of title to wealth elsewhere enumerated. What we usually take into account when we estimate an individual's assets is far from what we can properly count when we post up the nation's wealth.

Further, the measure of wealth in dollars, pounds sterling, marks, francs, or what not is nothing that inheres in the possessions which are counted as wealth. It is strictly a function of what other people than the owner are able and willing to pay for the possessions. Within the month, the writer has seen, in a taxed-out European city, residential property which would be worth $1,000 or more a front foot in a corresponding American city but which is worth nothing at all because nobody can afford to own it. Whatever value it has is physical and subjective, a value in use, but not a value in exchange.

Hence the aggregate wealth is not a very good basis from which to start in thinking out the financial foundations.

If the schoolmaster's own personal wealth is reckoned and the problem arises of contributing some of it to the support of the State schools or to the endowment of his struggling Alma Mater, neither the school district treasurer nor his class secretary would be willing to accept a tire from the family automobile or the wife's party dress. True, the tire or the dress might be converted into money and the money paid over, but that would raise the exceedingly litigious questions of original cost, present sales value, or cost of replacement new. In any event, such a method of payment would cause our friend's wealth to vanish like untimely snow in the breath of a south wind. For there will be a similar demand next year, since the tax collector is remorseless and at the last alumni dinner the schoolmaster signed an agreement to make an annual subscription. If he is to continue to pay, in four years more he will be riding on the rims or his wife's wardrobe will be sadly depleted. The ultimate consequences are horrid to contemplate.

But of course he would buy more dresses or more tires and pay for them out of his earnings. Aye, there's the rub: he really

pays out of his income. And so does everybody. We pay the grocer and the tailor, the landlord and the automobile dealer, the tax collector and the college treasurer out of this year's income or the surplus of last year's or out of borrowings in anticipation of future income. Income may be counted as wages or salaries, as interest or profits, or as excess of what our goods can be sold for over what they could be sold for last year. Devoid of speculation as to the metaphysics of income, that is what income for all practical purposes reduces to.

It begins to look as if these astronomical figures in the count of national wealth were to be taken only in a Pickwickian sense.

And so it appears that if we can find the aggregate of all the incomes of all the people, either in the local community or in the nation, we shall have at least a starting-point from which to think out the issues involved in our present problem.

II

Income in the United States.—Happily we have the figures at hand, and they give us a remarkably tangible basis for thinking out all sorts of social problems. The figures presented in Table II are taken from a *News-Bulletin* of the National Bureau of Economic Research, verified by correspondence with the Bureau itself. They are subject to correction and refinement and, before this volume reaches the reader, better figures will probably be available. They serve our present purpose because they give us a picture of the order of magnitudes involved and of the recent progress in growth of the national income. They represent current income only, excluding income represented by changes in the value of property.

We are not primarily concerned in this volume with the existing distribution of incomes among individuals, but it is worth noting in passing that all the studies of the Bureau have shown that there is a steady tendency for the lower incomes to increase not only absolutely but relatively.

For every person gainfully occupied in 1926 there appears to have been on the average an income of slightly over $2,000. When reduced to money of

constant purchasing power we find the average person working for a money income received about one-fourth more for his services than he obtained in 1917 and about forty-four per cent more than in 1909.

TABLE II

INCOME IN THE UNITED STATES

Year	Income in Millions	Purchasing Power at Price Levels of 1913
1909	27,100	28,200
1910	28,400	29,100
1911	29,000	29,300
1912	30,600	30,800
1913	32,000	32,000
1914	31,600	31,300
1915	32,700	32,000
1916	39,200	35,500
1917	48,500	37,300
1918	56,000	35,500
1919	67,254	37,600
1920	74,158	36,300
1921	62,736	36,200
1922	65,567	40,400
1923	76,769	46,900
1924	79,365	48,400
1925	86,461	51,100
1926	89,682	52,900

WHAT THE EXHIBIT MEANS AND WHAT IT DOES NOT MEAN.—The nature and meaning of income seem to be a highly controversial matter. Hence it is perhaps right to quote from King, showing the sense in which the term is used by the Bureau:

When using the totals presented in this volume the reader should keep in mind what these aggregates do and do not stand for. They do not represent the income of the national government, the value of the psychic income of the people, the social income, or the income as it would be if all the people of the Nation or a State acted as an indivisible whole. They are merely sums of those kinds of individual book incomes commonly accounted for in terms of money. If every individual kept an accurate set of private accounts and thereby arrived at his net income for the year, and if all these net incomes were added together, the resulting totals would be those which this report attempts to approximate.[1]

[1] Leven, *Income in the Various States* (National Bureau of Economic Research, 1925), p. 19, "Preliminary Statement."

The warning upon which it is important to concentrate is that contained in the words, "as it would be if all the people of the Nation or a State acted as an indivisible whole." We must not look upon the aggregate of the people's incomes as if it could be treated as something to draw upon, as if it were indeed like what it would be if we were thinking of the income of a fabulously rich individual, instead of the aggregate earnings or incomes of many millions of individuals. The aggregate of incomes in the nation or in a local community is not in the nature of a checking account at the bank. It is rather something after the analogy of basal metabolism in a given animal species, or perhaps of amperage in the flow of a current along a wire. That is, it is something like a measure of the vigor or the volume with which processes go on in the financial organization of society.

It must be remembered further that the aggregate income in money is also very closely the cost of consumption in money. Indeed, the Bureau in making its original estimates did two things: it counted up the incomes and it also counted up the value of production. How closely the two results corresponded can be seen by reference to the chart on page 16 of *The Income in the United States*. Production implies consumption of one sort or another. What we in the aggregate consume in goods or services, including capital services, is in the long run what we in the aggregate earn. In other words, the national income is what results from our working together in society and having financial dealings with each other. What is left over in any one year out of earnings is liquid capital awaiting investment and the generation of more production. An interesting philosophy, which is not recommended as a rule of private financial conduct. Again, any analogy drawn between individual income and national aggregates is prone to be misleading.

Hence we soon find ourselves in a morass of fallacies if we reflect: "Eighty-nine billion! Of course we can take two or three or maybe ten billion for schools."

Nevertheless, the income estimates give us an excellent fac-

tual basis, perhaps the first such basis we have ever had, for a study of the purely financial possibilities of an adequate school organization for the nation as a whole. Further, they suggest a method of thinking which is extremely helpful in the direction of investigations calculated to give us similar estimates for any state or any local community. In particular, they give us a basis for judging the limits of taxation.

III

Probable Cause of Increase in True Income.—The significant thing about the exhibit of Table II is the remarkable increase in terms of dollars of uniform purchasing power, that is to say, the true increase; and especially the steady and large increase between 1921 and 1926. Gains in the gross count of dollars of current purchasing power means relatively little, since they may largely or wholly be balanced by increases in prices of commodities. In that case, there is little or no distribution of purchasing power in the direction of improvement in general well-being. When there is, however, gain in true income the meaning is that production, or else elimination of waste, is gaining on demand, sufficiently to prevent large increases in the prices of fundamental commodities. To that extent, prosperity tends to be diffused among all classes. Now, if we put the income facts together with the production and school enrolment facts shown in the preceding chapter, and the argument therein developed, certain conclusions seem to be evident which are significant indeed.

The invention of mechanical devices and their extended use had by 1900 so far enabled production to gain upon the fundamental economic needs of society that children and young people began to be released from labor and to be absorbed in the school and college enrolment. The digging of the Panama Canal and the demand for new machines in the war greatly stimulated the invention and use of that type of heavy machinery which perhaps releases more labor-hours than any other. I refer especially to

machines used in the building trades and on road and ditch work. Horse-power per man at work increased. Standardized manufacture and the application of scientific method had also made incredible advances. Production went upward, and so did wages and dividends, with salaries lagging behind; but production was at once absorbed in a rise in the standard of living, or, in other words, in demand, and the purchasing power of the dollar dropped from 97 cents in 1914 to 50 cents in 1919 and 1920. Goods and services were abundant but not enough. Production, however, went on; more and more youth were enrolled in high school and college; the labor supply was relatively decreased both by school enrolment and the immigration acts; earnings increased to seventy-four billion in 1920, dropped to sixty-two billion in the depression of 1920–21, recovered and went rapidly to eighty-nine billion in 1926. Furthermore, purchasing power increased 46 per cent between 1920 and 1926. Consumption was enormously increasing, but production was more than keeping pace. There is, in effect, one automobile to every family in the United States, not only because earnings are relatively high but also because automobiles are relatively cheap.

Now any such increase in the use of machinery as we have seen in the last quarter-century would normally have glutted the labor market, and both wages and purchasing power, as well as national income, would have been forced down. The Machine would have stopped by reason of the inability of society to take up the product. The working individual and the labor union would both have been helpless because bargaining power would have been gone, even as the Panic of 1873 left an earlier phase of the union movement disorganized and helpless. But the free school began to furnish the solution, for it relieved the labor market and, we hope, began to generate more and more intelligence and self-control in the masses. Labor in the middle of the last decade began to be able to bargain on equal terms with the employer, and more recently the new purchasing power thus created has captured the imagination of the merchant and the manu-

facturer. The latter have come to see more concretely that enhanced wages, increases in the lower income levels, involve higher incomes at the upper levels and more of them.

Now the release of labor-hours by machinery has resulted in the formation of new occupations as well as increase in school and college enrolment. In other words, society gets things done which it could not get done before, for sheer lack of productive capacity. Nevertheless, the limit is soon reached along that line because after all, while the consumption power of civilized society is very great, it is by no means unlimited.

That increased purchasing power has not wholly resulted in mere riotous consumption is made clear by the recent enormous increase in the volume of aggregate small savings as they appear in savings bank deposits, membership and assets of loan and building associations, paid-in premiums on life insurance, small holdings in bonds and in the stocks of industrial corporations.[2]

The Financial Foundation Is as Inherently Sound as the General Economic Foundation.—It appears, then, to be quite clear that enrolment in school and college is the critical permanent factor in the new financial society. It is the essential process in an organism that has generated a purchasing power commensurate with a productive capacity which in its turn is capable of supplying goods and services for all. Renouncing roseate dreams as to the general social import of the process, it is at least evident that the financial basis of universal schooling in the United States is sound, just as the broadly economic basis in productive capacity is sound. There is potential purchasing power enough to purchase schooling, for the simple reason that purchasing power in the nation depends on enrolment in the schools.

Nevertheless, the principle should be emphasized that this does not mean that there is always money enough somewhere. It only means that there has come into existence an organism

[2] See, for instance, Carver, *Present Economic Revolution*, p. 92.

which rightly utilized is inherently capable of producing effective schools on a large scale.

It does not follow that the people, either individually or in their political capacity, will set aside purchasing power enough to pay for the best schools, even though they might in principle do so. So long as enrolment is kept up, they may prefer to purchase something else instead—indeed, in this still imperfect world such is commonly the practice. Nor does it follow that with the political organization which they possess the people could pay for the best schools even if they wished to do so.

We need not delude ourselves into the belief that the financial organism is perfect. On the contrary, it is still a frail creature and subject to endless maladies.

Nor need we complacently assure ourselves that the school administration is absolved from the necessity of skilful and intelligent management of the school money.

IV

Use of the National Income.—Let us remind ourselves of the principle noted in the foregoing that the national income cannot be treated as if it were the income of an individual. How, then, can it be treated? To that end, it is perhaps helpful to note in a rough way the uses that people in general make of their income and conversely how the earnings come in, for, as we have seen, on a national scale the two are simply different aspects of a single process.

1. *Subsistence, at the standard of living sought.*—There is included here not only the goods and services which enter into the supply of food, clothing, and shelter and maintenance of health at the level of creature comfort and well-being, also those which yield the refinements of life and those which contribute to a more or less luxurious existence. We earn our living in large part by producing the goods and services which enter into subsistence.

2. *Maintenance, replacement, and extension of fixed capital,* that is, houses, factories, machinery, railways, and other means of transportation and communication and in fact all goods used in production which in their nature are worn out rather than used up in the process of use. A building, for example, may be worn out but it is used many times. A ton of coal, on the other hand, can in its nature be used but once. Nevertheless fixed capital does not last forever. It is worn out or becomes obsolete and must be replaced. In other words, it depreciates, and the depreciation must be made good.

On the other hand, as population increases or the possible standard of living rises, additional fixed capital must be provided. That is to say, in a progressive community, extension must be provided for.

3. *Making good depletion of natural resources.*—Agricultural lands and forests have to be conserved and sooner or later brought back into productive use. Conservation and renewal require goods and services.

Some natural resources are not subject to renewal: when they are used up, substitutes must be found. The substitution of industrially fixed nitrates for nitrates drawn from deposits is an example. A considerable part of the goods and services which go into modern research is in reality a depletion cost.

Thus many of us earn our living by making good depreciation and depletion.

4. *The accumulation and the use of liquid capital.*—No civilization like ours, with its wealth of material comfort, personal enjoyment, and cultural agencies, could be kept going for more than a few years, were it not for the fact that there is accumulated surplus of earnings in the hands of individuals, or corporations, or the government. This surplus takes the form of ability to pay in money or the equivalent of money. The use of this liquid capital costs money and creates income just the same as the use of personal services costs money and creates income. Perhaps there will sometime evolve a society in which the work of the world can

be carried on without any form of payment for personal services, though the evidence available suggests that such a society has long since been left behind. Until that time comes, if it ever does come, we may expect that the existence of liquid capital and its use, and payment for its use, will continue to be a factor in the financial structure of society, just as personal services are a factor.

A great many of us earn by denying ourselves and making liquid capital available.

5. *Government.*—In order for civilized society to exist at all, there must be an agency for the maintenance of order, for the determination and maintenance of the rights of individuals, for military defense, for the maintenance of a currency and various types of standardization. These are the fundamentals of government. The use of goods and services for government includes much which does not appear as expenditures and income under the auspices of the State. Whatever transactions occur in the application of popular sovereignty to the determination of government, in the conduct of political campaigns for instance, belong to the category of government.

Our existing states do much more than is included in the foregoing. They maintain agencies for the furtherance of the productive capacity of the population, such as departments or bureaus of commerce, industry, labor, agriculture, and the like; streets and highways; sanitation, protection from fire, the supply of water, and sometimes other utilities. They provide parks and sundry recreational activities, and contribute in manifold ways to the general welfare. Most of these activities, however, are part of the subsistence and other costs.

One of the largest single items which enters into the aggregate of activities managed by government is the State school. It is our contention that this is one of the fundamental agencies of government as much so as the courts or the military establishment. Nevertheless, to avoid confusion in thinking, the State schools are placed with other schools.

6. *The Church and allied activities.*—Perhaps we should call this a part of the subsistence use of goods and services. Expenditure for charity and income to almoners and vendors of goods used in charity undoubtedly are such, since charity is in principle simply a contribution on the part of the more successful to the subsistence and well-being of the less successful. Similarly, activities belonging to what is collectively called social-welfare work are in reality either contributions to subsistence or to government. Not so the Church.

The Church is one of the fundamental social institutions, at times a competitor, at other times an organ, of the Civil State, at other times still *imperium in imperio*. We are unconcerned with the religious character of the Church and equally unconcerned with the fact that the American State is unaware of any Church at all. So long as there exists such an institution capable of earning a part of the popular income and laying out the same, then the Church and its subsidiaries constitute one of the critical factors in the national income.

7. *The public school.*—In a precisely similar sense, the public school is of necessity a major factor in the national income and expenditure. Its place as a true social institution has been argued in chapter i, and the place of the State school as a civil institution. The private school as such is evidently part of the subsistence cost devoted to the maintenance of the standard of living. Whether the public school is maintained by the State or by the Church, or even conceivably by a tolerated organization inimical to either or both, does not matter. It is still a factor in national income separable from the other factors listed.

8. *The University.*—When a college of priests in remote antiquity gathered for the purpose of training neophytes to carry on the practice of their rites, the germ of the University had appeared in societal evolution. The University as a social institution is no part of the School, any more than it is an agency of the State or the Church. If it exercises the functions of the School, then it is to that extent School and not University. As soon as the

most primitive civilization appeared, there also appeared as part and parcel of it the function of training youth to carry on the more specialized vocations, those which could not be imparted by the home or by the craftsman, those which we call today the professions; and the further functions of adding to the stock of knowledge and of disseminating the same.

Thus, it seems clear that the University is a true social institution, and as such in its functions of technical training and of the pursuit of the needs of pure science is in essence a separable and major factor in the national income and its corresponding expenditure.

V

Money Devoted to the School Does Not Deplete the National Income.—Now there has long existed what may be called the "surplus theory," which holds that institutions of learning in general are supported out of what is left over after the primary needs of society are provided for. An easy transition in thought makes it appear that schools and universities must depend for financial support on the aggregate of surplus individual incomes, either set apart for educational purposes by their possessors or taken from the earners by taxation. Thus the readiness with which people who are interested in schools think in terms of "devoting" a part of the national wealth or national income to the support of schools.

Whether the theory could ever stand the test of severe analysis is perhaps doubtful. In times when productive capacity was nothing like enough to provide a basis for universal education and when therefore the schooling of individuals was necessarily more or less a selective process, it is in a sense true that schools were supported out of the contributions of the more successful individuals. But one cannot assert too confidently that an entirely new era in national economy has dawned when the productive capacity of society has become sufficient to provide for the needs of all, even though so large a fraction as one-quarter of the population has been released for schooling, and when in the presence

of abundance the purchasing power of the standard of exchange fluctuates but little. The expenditure for schools and universities becomes too large an element in the flow of goods and services to be accounted for on any surplus theory whatever.

Strictly speaking, there is no such thing as an economic surplus, in the sense in which the term is commonly used. Goods and services are consumed and paid for. Liquid capital accumulates, finds investment in capital goods, and in its turn becomes part of the services which are used and paid for. Thus the national income finds its origin and in a prosperous society increases from year to year. The only surplus is the labor which is released for betterment purposes, or even for unemployment, because it is not needed for primary production, not needed in a social sense, rather than in the sense of privately operated and directed industry.

It follows that the money devoted to the support of schools does not constitute a depletion of the national income. Schools are not paid for out of national income: they constitute an element in the national income. A billion dollars laid out in teachers' salaries is a billion dollars of income as well. The teachers are the people who hold title to that portion instead of somebody else. The money represents a billion of purchasing power in the teachers' hands in exactly the same sense as it would in the hands of the wage-earner or in those of the interest-earner. Money enough for schools in the national economy depends, not on the adequacy of the national income, but on two quite different issues:

1. Is there productive capacity enough in the nation to warrant setting aside one million or two million people to teach, in addition to those set aside as pupils?

2. Is there in working order a mechanism which properly administered will maintain and increase purchasing power sufficient to purchase the services of teachers?

The answer to both questions has already been confidently stated in the affirmative, but the reader is warned that we are dealing here only with major fundamentals. There is much still

to be said concerning the mechanisms by which the services of teachers are purchased.

Nevertheless, the economic and financial organism which has evolved is an organism within the domain of human affairs and human control, and its normal functioning depends upon intelligence and self-control widely diffused in the nation, in other words, upon the qualities which schools are intended to produce. In the end, the money which may flow to the support of schools depends wholly upon the schools themselves. In the list of eight factors which have been suggested as appearing in the flow of economic goods and services, the School is the critical factor, the head dominance of the organism.

VI

The School as Control.—So long as productive capacity remains adequate to the needs of the population, and is capable of almost indefinite extension, the question of money enough to maintain truly effective schools at bottom hangs on the transfer of purchasing power from one to another of the eight categories which have been suggested. The increase in aggregate purchasing power as reflected in the true income does not in itself accomplish the result hoped for, since purchasing power is likely to appear in the goods and services devoted to subsistence, including the cost of riotous living.

The Luxury Argument.—Herein lies the strength of the so-called "luxury argument," which holds that if we spent less for pleasure cars, candy, cosmetics, tobacco, and the like we should spend more for education. It is true that such is in general the only way in which relatively more money will be made available for the support of schools, and universities as well. But it does not follow that if some American Mussolini were to arise and prohibit this luxurious expenditure the equivalent in money could be diverted to schools even by the dictator himself. What would happen would be a sharp decline in the national income, and therefore in purchasing power, until such time as the labor

and capital services released could be absorbed in some other kind of productive enterprise capable of restoring the lost purchasing power. It is pointless to argue that if we can spend several billions a year for pleasure cars we can spend several billions for schools. The fact that we spend such sums for automobiles is part of the reason why we have what we do have for schools, things being as they are.

Luxurious personal expenditure, beyond the requirements of comfortable existence and enjoyment of the refinements of life, and wasteful expenditure, are the ways of the uneducated. If one would seek the best examples of luxurious and wasteful expenditure beyond the dreams of debauchery, he will not find them even among the newly rich of a prosperous American city. He will find them in the stories of savage and barbarous peoples, where a sense of plenty would usually induce a period of absolute gluttony with no regard whatever to the dire and prolonged famine certain to follow. The story of civilization itself, of the rise and fall of nations, is in large part a record of increasing or decreasing prudence among the people, of individual savings and the accumulation of capital to meet the needs of coming years, of improvements and betterments in the form of fixed capital capable of being handed down to succeeding generations. In due season and in our own time, the organization of financial agencies to promote savings and to diffuse the blessings which flow from them among all classes has made this fundamental of civilization much easier to come at and much more an abiding affair.

The escape from the truly luxurious expenditure of the savage to the relative thrift of modern times has been the product of the School. Apart from the pioneer taught in the hard school of direct personal experience, the intelligent thrift of a prosperous nation is an educational product and nothing else.

Some economists seem to hold that the capacity of civilized man for consumption is unlimited. If the statement is held to apply to economic goods and services in general, including those services which contribute to the refinements of life and ameliora-

tion of existence—including the support of good schools, for instance—it is doubtless true. If it is held to apply to material goods as such, not only the principle of diminishing utility but the facts themselves are against the assertion.

An automobile which costs $500 yields a great deal of satisfaction, about all which one that costs $1,000 can give but not all; $2,000, $3,000, $10,000 yield diminishing returns in legitimate automobile satisfaction and increasing returns in display satisfaction. Now display is perhaps wholly a matter of inferiority compensation. So it was with the savage, and so it is with the modern barbarian. His behavior reveals his inner lack of balance and confidence and his anxiety to convince himself and others that he is what he wishes he were and knows that he is not. So far as the schools fail to bring to bear the influence of mature personalities, and of the riches of the arts side of the curriculum, in the direction of personal stability, they fail in one of the prime economic essentials of education.

If civilized man's consumption were limited only by the supply, we should certainly expect to find a greatly increased food consumption in the recent period of increasing average true income, and increasing availability of all kinds of food. Despite the fact that large numbers who were underfed even in the last generation are now adequately fed, the facts show that on the whole the per capita consumption of food has tended to fall off in the items in which one would have expected an increase.[3]

The findings of the President's Committee furnish convincing evidence that in this, perhaps the most fundamental of the subsistence costs, neither a greatly improved purchasing power nor a still greater improvement in the food supply which modern transportation has brought about has induced gluttony or even suggested an unlimited demand for food. On the contrary, consumption of the great staples has fallen off in favor of a varied diet which is very much in consonance with civilized standards of living. The reasons are, of course, largely a matter of guesswork,

[3] See *Recent Economic Changes*, I, 24 ff.

but we may reasonably infer that two causes at least have played their part. Diminishing physiological need following diminishing manual labor and better heated houses and factories is doubtless one cause. Another, in all probability, is increasing intelligence in general, and specifically the product of many years of health and dietary teaching in the public schools.

If school people desire the billions of national income which still appears as wasteful and luxurious subsistence, they can have much of it; and the remainder will go into productive capital well distributed in ownership in proportion as thrift is well distributed. But to get it they must teach thrift and true refinement and thus justify themselves in the educational endeavor which they profess. Otherwise, they can in the mass have only what they can persuade the people and state legislatures to give them, and both are prone to give more than the financial structure will stand.

GOVERNMENT.—In the grounds of judicial decisions touching the legal bases of State schools, their presumed utility as agencies in the protection of a self-governing society from the menace of popular ignorance stands first if not alone. And yet schools give little heed to the development of intelligence in the body politic touching the nature and procedures of democratic government, especially in its economic and financial aspects. The people are reluctant to provide for trained officials,[4] especially in city affairs, and there is rarely specific intelligence enough in the voting population to follow the lead of statesmen who formulate sound proposals. The waste in government is proverbial and perhaps as bad as, or worse than, wasteful and ineffective expenditure of public funds is an obsolete and mischievous revenue system, which not only fails to yield revenue which the economic and financial structure of society is entirely capable of producing, but in addition constantly tends to destroy its own basis in productive enterprises.

[4] For example, a European chief of police is frequently a university-trained specialist. Comparisons are odious.

It is not at all rash to assert that the waste of government money on the expenditure and revenue sides combined is equivalent to a very considerable proportion of the whole outlay devoted to the support of schools. Schools can have the whole amount now wasted in governmental affairs, or its equivalent, but to get it they must produce political intelligence in the new voting population even as they have already produced a reading public.

Economics.—This is an economic world. Save for the young people under schooling and a relatively small leisure class, every individual has pressing problems in the management of his economic affairs, upon the solution of which his own happiness and that of his dependents hangs. He sometimes tries to escape into the arms of the State or those of an industrial corporation, only to find that what he has avoided as an individual he has taken upon himself as a member of a social group. More than that, society has economic problems which are as exacting as those of the individual, although not always so pressing, and upon the solution of these problems depends the happiness of all the individuals who will enter into the society of the future. The present is forever merging into the future. Among these economic problems of society, to mention but two, are those of the pressure of population upon natural resources and the depletion of natural resources both through the ignorant greed of mankind and through the operation of controllable but still uncontrolled forces of Nature.

Economic society requires widespread intelligence in the form of understandings of economic principles and methods of thinking. People no longer invest their money in corporations for the manufacture of perpetual motion machines, because most people know that such machines are impossible. That kind of public opinion has become established, because the schools have assiduously taught physics for more than a generation. Individuals who know no mechanics at least sense that such machines are intellectually bad form. Legislatures no longer resolve that the

value of π shall be an even 3, because mathematics has been taught long enough and enough people have learned its elements to make such proposals ridiculous. Most of us no longer consider sanitation sinful, and even dare a return of monarchical government to the extent of tolerating medical men on boards of health. The reason is to be found in the fact that the elementary principles of health have been taught into the mores.

But any banker will inform the reader that the public is still as ignorant of the elements of economics as it once was ignorant of the elements of mechanics, and with a similar effect. A perusal of the *Congressional Record* or of the journals of sundry state legislatures will convince the curious that the public mind is still as innocent of intelligence in economics as was the legislative assembly which aspired to take a short cut to mathematical reform, unaware of the limitations in that field.

As this is being written, eminent economists and business men are frequently being asked whether the abundant prosperity which we now enjoy will last. It is interesting to note that nearly everyone to whom the question is put responds, "Yes, unless the people go mad." Prosperity can endure and go to almost unimaginable lengths in the generations which are to come if the schools will teach into the public the specific intelligences and self-control which are required.

VII

THE SCHOOL IS ECONOMIC IN ITS NATURE.—People are singularly reluctant to admit that the School is any part of the economic scheme of affairs. "Let us have at least one enterprise in the world untainted by materialism and commercialism." So the romanticist whistles to keep up the courage of his convictions and, as always, imports into his argument terms which have acquired an unsavory connotation. After all, it requires no great courage to vote away other people's earnings. Now, economic thinking is not necessarily any more materialistic nor any more the servant of human greed than mathematical or historical

thinking, any more than Greek grammar or even an art museum. The only escape from an economic world is reversion to savagery.

It is abundantly evident that the School is not only subject to the control of economic law but that it is the critical factor in the well-being and progress of an economic society as such. The genuine idealist, unlike his romantic brother, proposes to accept the situation as he accepts the rule of reason in those aspects of existence which the physical scientist interprets. The central principle and point of departure in thinking out the problem of support may be stated in homely form thus: The School must earn its own living. More than that it must exercise intelligence and prudence in bargaining for its wage, that is in collecting its revenue, and in making its outlays.

It is worth while to repeat that the field from which the School could probably add most to its potential resources is that of luxurious and wasteful subsistence, and it is impressive to reflect that the chief economic value in educational products is, potentially, not in the fields cultivated by the teachers of commerce, or of vocational branches, or of applied science, but in that with which the fine arts deal and in the general moral and spiritual purpose of teaching and school government. The products which have the most important economic implications are refinement and self-control and aggressive moral purpose.

Hence the weight of every element in the curriculum is best justified by evidence that its intended product can be translated into terms of clear economic value to society. And that teaching is most effective which is justified, not by the individual earnings of pupils merely, but by their contribution to the earnings and savings of society.

VIII

Do the Schools of Today Pay Their Own Way?—In recent years, there has very properly been a good deal of concern over what is called the "money value of an education," and some interesting studies have been made. It would be superfluous to deal with the subject at all save for the fact that school execu-

tives are prone to be misled by such studies, perhaps to conclusions that the authors would hardly sanction.

Such studies are usually addressed to youth who are still looking forward to further years in school and wondering whether the time and money outlay will be justified in terms of subsequent individual earnings. The findings are usually affirmative, but subject to statistical doubt in that it is hard to say whether enhanced earning power was really due to the schooling acquired, or was due to the fact that the schools in effect selected pupils who would be destined to high earning power anyway, or was due to a strong tendency in employers to be governed by the social prestige of a diploma. Still the studies are good for their purpose and in effect are probably not wide of the mark.

But individual earnings are not necessarily socially productive earnings, even in the economic sense. Enhanced earnings of course expand the national income, but so do the earnings of the brothel and the gambling den, and so does expenditure for military purposes even in the midst of a period of destructive warfare. Enhanced individual earnings may mean that consumption is increased in even greater ratio than the productivity upon which the earnings are based. They may be parasitic earnings even though they do not originate in recognized crime. They may be earned in productive enterprises which entail diminished productivity in the future, for instance, in wasteful mining or lumbering or farming. It is in the socially productive earnings that the School builds up the resources of its financial support.

Now it has been clearly shown that the present prosperity of the United States is traceable in large part to the operation of free and universal schooling, and that there has thus been built up an organism which is in itself abundantly capable of supporting any kind of a system of instruction which we are likely to need. But the mechanism which has been at work is a matter of enrolment. It does not at all follow that the schools have generated the transfers in purchasing power which have been studied in the foregoing. There is no proof that schools as a whole are

paying for themselves in the only ways in which they could pay for themselves. Some of them probably are; it is doubtful that public school systems as a whole are doing so.

IX

A New Leisure Class.—The picture which is suggested by the two chapters which deal with the general economic and financial foundations is in some respects extremely soothing. Lest the friendly schoolmaster who has read these pages become overoptimistic, we must direct attention to a particularly restless and vigorous fly in the ointment.

The processes which are plainly at work rest in their very nature upon the creation of an entirely new kind of leisure class which is unprecedented in its dimensions. This leisure class consists of nearly all the children and youth of the land up to the age of eighteen, and it is spreading up into the next four years of life. It may seem preposterous to speak of children as constituting a leisure class, but in truth most children above the age of six or seven in America have constituted a working class to a greater or less extent until very recently. That theme has already been elaborated in detail.

Now history is full of instances of leisure-class economy. In brief, leisure classes have never responded to the pragmatic test: they do not work out. At times, as landed gentry, they have contributed to production through government and military defense. But sooner or later, they become unwilling even to govern, and their military activities come to consist first in wars of aggression and finally in mere military display. The reason is not far to seek: successive generations do not learn to apply themselves to any kind of effort. An enduring leisure class of the gentry type has failed to grow up in America, largely in all probability because of our unwillingness to tolerate primogeniture and entail and because of the Constitutional prohibition of orders of nobility. Thus, the situation has been left to the operation of the natural law of the School which, in its working out in this particular

case, is expressed in homely phrase by the expression, "Three generations from shirt sleeves to shirt sleeves."

It is perhaps hard for the average reader fully to realize how very recent the situation described in the present chapter and the preceding is. Men and women are still in active life whose memories go back to the sod house and all the hardship, toil, and penury which it implied. Indeed, there are few people in the United States in middle life and older, save the very small number who were born into wealth, who cannot recall a childhood of toil, at least to the extent of the daily chore. In a few years these people will largely have passed on. We have yet to learn what will be the consequences in the social order and economic stability, especially after another generation, when the release of childhood and youth from labor in industry will probably have become complete.

Our organized school systems assuredly have within them the capacity of substituting for the effort of industry the much more systematic and productive effort of learning. That they can do so on an educational philosophy which has in it small place for effort and less place for attacking the disagreeable task, which substitutes the pedagogical demagogue for the schoolmaster, may reasonably be doubted.

In any event, from this negative point of view, as well as from the positive angle of the preceding sections, the school system is in the long run its own support and there is no other.

X

In Summary.—It is clear that there is today inherent in the general economic structure of modern America abundant reason to conclude that the universal schooling of the younger generation in public schools of one sort or another, with adequate support of the schools themselves, is entirely possible; and it is equally clear that any such possibility is of very recent origin. There is productive capacity enough. The validity of the financial structure of society rests very largely upon the free school

itself, both because the school enrolment is by far the most extensive guaranty against a great labor surplus with consequent low wages and low purchasing power, and because the school system has within it the capacity to generate the intelligence and character upon which still higher and better distributed national income depends.

If this is so, why should financially embarrassed city-school systems be so common and pitifully meager rural schools the all but accepted order of things? Our teaching force, despite considerable improvement, is still largely amateur in character and to a distressing extent recruited from the ranks of casual labor. Here and there teachers and school officers are paid enough to attract a due proportion of competent professional workers, but such is very far from the rule. Why should these things be so?

The answer must be sought in the method by which the school revenue is raised and distributed and in the methods by which the school money is laid out. The cost of adequate schools is far more a matter of the sacrifice of prejudice, of habitual ways of doing things, of love for incompetent meddling with matters which require trained intelligence, of hoary political tradition uncritically accepted, than a matter of finding money resources in terms of cash and credits.

When the statement is made that the economic structure of modern America is entirely capable of supporting a school system which is beyond all precedent in its extent and in its aspirations, it is not meant that we can have, freely open to all, whatever sort of schools irresponsible fancy and local whim may conceive. In attacking the broad question of executive management, the problem which is primary in its import is that of the apportionment of the financial support of different types of institutions, which are generically classifiable as schools, between the State and the different forms of activity in which the flow of income and expenditure occur, between society itself and the individuals who constitute society. In order to secure some valid point of departure, we shall need to ascertain first what competent analysis has

shown to be the reasonable ground for the support of State schools through the instrumentality of taxation.

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See reading references for chapter ii.

CHAPTER IV

THE SCHOOL AND THE CIVIL STATE

"Every child has a natural right to education at public expense." How so? That every child has a right to education is a principle of elementary justice which has long been recognized among civilized peoples. It does not follow that every child has a natural right to expenditure of public funds on his schooling. Every child has a natural right to be provided with food and clothing until he can earn his own living. Nobody doubts that. But not many would hold that children ought, therefore, to be supported by the State. And yet there are few principles, in the constitutional foundations upon which our American states rest, better established than the one which holds that universal schooling at public expense is a veritable cornerstone of our polity. Evidently something better than oratorical dogmatizing must have been at work. What has it been? We shall be likely to find the answer in the body of political experience through which our forty-eight commonwealths, as we know them today, have evolved. In its most exact and best reasoned statement the record of that experience is to be found in the conclusions of courts of last resort, in multitudes of cases in which the civil rights of individuals have come into conflict with the implications of tax-supported schools, of compulsory attendance, and of a prescribed program of studies.

We can scarcely expect to understand the school money unless we can secure a working knowledge of the purpose for which State schools exist, not merely the purposes which satisfy educationists but those as well for which the laying of taxes and the constraint of the citizen can be justified.

Puritan Origins.—The political philosophy on which our State-school system rests is that of the Puritan Commonwealth.

If religion was to be an individual matter and people were to be citizens, as well as subjects of the British crown, the Puritan judged it to be expedient that people should learn to read the Bible and the capital laws of the country. Not only that, but children should be taught to understand the tenets of religion and the laws. The "state program of studies" for 1642[1] would hardly serve today, but the principle set forth in the act itself is in large measure the one under which taxation for the support of schools is everywhere justified. There is no doubt as to what the framers thought about the matter: there was no safety in letting children grow up ignorant.

The other outstanding example in the period of settlement is the Pennsylvania Act of 1693, drafted in response to the urgings of Penn:

> And to the end that poor as well as rich may be instructed in good and commendable learning, which is to be preferred before wealth—
>
> *Be it enacted, etc.*, That all persons in this province and territories thereof, having children, and all guardians and trustees of orphans, shall cause such to be instructed in reading and writing, so that they may be able to read the Scriptures and to write by the time they attain to twelve years of age; and that they be taught some useful trade or skill, that the poor may work to live, and the rich, if they become poor, may not want; of which every county court shall take care. And in case such parents, guardians, or overseers shall be found deficient in this respect, every such parent, guardian, or overseer shall pay for such child five pounds, except there shall appear an incapacity in body or understanding to hinder it.

In one of Penn's letters occurs the following statement:

> Upon the whole matter I undertake to say that if we would preserve our Government we must endear it to the people. To do this, besides the necessity of presenting just the wise things, we must secure the youth; this is not to be done but by the amendment of the way of education, and that with all convenient speed and diligence. I say the Government is highly obliged; it is a sort of trustee for the youth of the Kingdom, who, though minors, yet will have the Government when we are gone.

For some reason, King William, or more likely his ministers, liked it not and the act failed to receive the royal sanction. It

[1] Above, p. 13.

must have looked to men like Caermarthen and Nottingham and Rochester much as a proposal to incorporate the doctrine of organic evolution in the state constitution would look to some of our state legislatures. Or Penn was known to be flirting with the exiled royal family and was more or less a suspicious character anyway. Be that as it may, despite a re-enactment a hundred years later, the act never came to anything. Nevertheless, it is apparent that the intentions of Penn and his followers were much like those of the Puritans.

For nearly three hundred years our school history has been in some measure a conflict between what may be called the New England and the old England theories of the School; between the view which holds the effective School to be the cornerstone of a democratic polity and that which denies that the State has any primary concern whatever with the schooling of the growing generation. The New England theory followed the New England emigration westward, but not until after the war between the states did that view begin to gain ground rapidly elsewhere, in terms of positive legislation.

The National Period.—At the beginning of the national period, the founders of the new republic were confronted with precisely the original American situation. From right wing to left wing there were all shades of political philosophy, ranging from near-monarchy to near-anarchy. But a republic of some sort there must be, and, however much men might differ on the extent of the franchise, voters there must be, and if so voters must be equipped with the means of intelligence regarding public affairs. Jefferson's confidence in the natural man was not carried to the extent of believing that men can judge wisely, either for their own good or for the public good, concerning issues about which they are ignorant and have not the means of enlightenment. "If a nation expects to be ignorant and free in a state of civilization, it expects what never was and never will be." Madison's statement is equally to the point. "A popular government without popular information or the means of acquiring it is but the prologue to a

farce or a tragedy, or, perhaps, both." Jefferson and Madison were perhaps as much interested in maintaining political liberty as in maintaining government. Washington, on the other hand, put law and order first, rightly believing that the greatest enemy to liberty was not monarchy, which he had more definitely renounced than has any other American, but the chaos which arises from weak government. Hence the famous passage in the Farewell Address, "Promote as an object of primary importance institutions for the general diffusion of knowledge. In proportion as the structure of government gives force to public opinion, it is essential that public opinion should be enlightened." The interest and concern of Washington and Jefferson particularly were not confined to letter-writing and speech-making. Both of them were active in endeavors to lay the foundations of an educational system. In brief, Washington and John Adams, Jefferson and Madison, and others as well, were standing exactly where Winthrop and Endicott and Penn had stood a century to a century and a half before. Another century and a quarter of civil experience was destined to be a veritable experimental test, and to prove that where effective schools have been maintained there is the security of law and order, and equally to demonstrate that where essentially unschooled and undisciplined electorates are in control not only is there waste and extravagance in all directions but neither the lives nor the liberties of individuals are secure. It would seem to follow in clear necessity, whenever one chooses to canvass with any degree of thoroughness the problem of good government in a democracy, that he must conclude that the major purpose of a public-school system is the defense of society against the menace of ignorance and self-will.

I

THE STATE CONSTITUTIONS.[2]—If the schooling of the children is felt to be a matter of vital concern to the State, that pur-

[2] Material for this section is taken from an article in the *Report of the United States Commissioner of Education* for 1892–93, Vol. II, entitled "Documents Illustrative of American Educational History," prepared by B. A. Hinsdale. Hinsdale had before him the state constitutions down to that proposed by Utah.

pose ought to be clearly manifest in the constitutions, both state and federal. It does not appear in the federal constitution, and the reason is obvious. Whatever may have been the individual views of the framers of that document, public schools were in principle clearly among the matters to be left to the states, and the state constitutions are seldom explicit as to purpose.

Pennsylvania, North Carolina, Georgia, and Vermont (prior to statehood) drafted constitutions in 1776 and 1777. In effect they all bade the legislatures provide for convenient school systems. Pennsylvania, North Carolina, and Vermont emphasized the principle that instruction should be inexpensive. Georgia definitely sanctioned state support, and Vermont provided for payment by the towns.

The appropriate section in the Massachusetts constitution of 1780 was what seventeenth-century writers would have called "a pathetic discourse." It seems to have been so impressive to our forefathers that it is worth quoting at length:

> Wisdom and knowledge, as well as virtue, diffused generally among the body of the people, being necessary for the preservation of their rights and liberties; and as these depend on spreading the opportunities and advantages of education in the various parts of the country, and among the different orders of the people, it shall be the duty of the legislators and magistrates, in all future periods of this Commonwealth, to cherish the interests of literature and the sciences, and all seminaries of them; especially the university at Cambridge, public schools, and grammar schools in the towns; to encourage private societies and public institutions, by rewards and immunities, for the promotion of agriculture, arts, sciences, commerce, trades, manufactures, and a natural history of the country; to countenance and inculcate the principles of humanity and general benevolence, public and private charity, industry and frugality, honesty and punctuality in their dealings; sincerity, good humor, and all social affections and generous sentiments among the people.

Of course this was not declaring the purpose of public schools: it was authorizing the legislature to do almost anything —if the money could be found.

So far as the civil purpose of schools is concerned, this early Massachusetts constitution may be said to have emphasized the *rights and liberties* motive. The same motive or its equivalent ap-

pears in: New Hampshire, 1784; Indiana, 1816; Maine, 1820; Tennessee, 1835; Arkansas, 1836 and 1864; Rhode Island, 1842; Texas, 1845 and 1866; Missouri, 1865; California, 1879.

Several of the constitutions come nearer the mark and emphasize *stability of republican government*. These are: Minnesota, 1858; Mississippi, 1868; South Dakota, 1889; North Dakota, 1889; Idaho, 1890.

The flat-footed recognition of *good government* as being dependent on the diffusion of intelligence among the people occurs first, of course, in the famous Article III of the Northwest Ordinance of 1787: "Religion, morality and knowledge, being necessary to good government and the happiness of mankind, schools and the means of education shall forever be encouraged."

The same motive is found in: Ohio, 1803; Mississippi, 1817; Nebraska, 1867; Arkansas, 1868; North Carolina, 1868.

On the other hand, several of the constitutions declare the *right of the people* to an education, through the instrumentality of free schools or otherwise. Sometimes this is the starting-point, and one of the other motives appears later in the same document. Instances are: Florida, 1868; North Carolina, 1868; Washington, 1889; Wyoming, 1890.

In the constitutions of most of the states not named in the foregoing classification, we either find education as simply a feature of the general welfare article or else no mention whatever of the purpose of public schools is made. In the latter class, a public-school system is usually taken for granted and constitutional provisions are limited to the administration of the system. In these states, however, the preamble to some public-school statute is sometimes more explicit and forceful than any of the constitutional declarations. For instance, the Illinois Act of 1825:

> To enjoy our rights and liberties we must understand them; their security and protection ought to be the first object of a free people; and it is a well-established fact that no nation has ever continued long in the enjoyment of civil and political freedom which was not both virtuous and enlightened:

and believing that the advancement of literature always has been and ever will be the means of developing more fully the rights of man, that the mind of every citizen in a republic is the common property of society, and constitutes the basis of its strength and happiness; it is therefore considered the peculiar duty of a free government, like ours, to encourage and extend the improvement and cultivation of the intellectual energies of the whole.

I know of no legal document whatever which more boldly and more exactly proclaims the essential civil purpose of the School.

Similarly, the West Virginia Act of 1863:

to provide for the means of instruction of all the youth of the state, in such fundamental branches of learning as are indispensable to the proper discharge of their social and civic duties.

On the whole, the evidence from the state constitutions, despite many gaps, points in the direction of the principles of the Illinois preamble of 1825. On the other hand, there is scant evidence that the clear vision of Washington, John Adams, Jefferson, and Madison had borne fruit in settled conviction. The nation was destined to wait many a weary year before there would again appear in public office another group of men so strongly disposed to attack the problems of our national economy in an intellectual spirit.

The revival of public interest in schools in the period running from the twenties to the Civil War was essentially part of the movement which has been called the *Rise of the Common Man,* and it centered far more on the claims of individuals to what they desired than on any conviction touching the civil purpose of schools. To be sure, prominent men gave utterance to much the same views which the founders had declared.

Political sentimentalists have long regarded this period and its peculiar insouciances as the real origin of Americanism. A perusal of the material which is related to the constitution-making of the era will furnish convincing evidence that sober-minded men were greatly concerned lest these sons of disorder should not only ruin themselves but wreck society. The remedy of the sober-minded group was popular education supported and controlled by the State and more of it.

School people were interested in the diffusion of culture, and more particularly in school administration and teaching.

The labor leaders were devoted to the pursuit of fair play for children and social equality. The battle was with the pauper-school notion. The whole period was no contest for the New England conception as against the English conception, but rather a battle for the kind of social democracy which was destined to be America's peculiar contribution to social ethics. Tax-supported schools were the objective because they had to be, but the arguments of the so-called common man for tax-supported schools could easily be extended to tax-supported children—and then to tax-supported parents. The New England ideology had no place for such communistic implications, for the New Englander for two centuries had been familiar with a civil purpose for schools which he could intellectually assimilate to the use of tax-supported courts and constabulary. Nevertheless, the theory that schools should be supported by taxation engendered a salutary opposition among a people the majority of whom were landholders, either actually or in prospect, and a great deal of enlightening litigation was the outcome. As we shall presently see, judicial reasoning of necessity forced the issue back to the fundamental Puritan conception.

But the courts seldom interfere with the program of studies. In terms of actual school policy, continuing down to the present time, the effect of the Jacksonian period seems to have been the expansion of the *private school* to the point at which the private school maintained at public expense includes all. The desires of the individual tend to obscure the necessities of the State as organized self-governing society. The only qualification to that statement which I am inclined to admit is the somewhat nebulous insistence on the social import of education which has recently come to find a corner in the thought of the schoolmaster.

Trend of the Statutes.—After all, the phraseology of constitutions means little save as it serves as a focus about which judicial reasoning is forced to center in the conflicts set up by leg-

islative acts. If the latter occasion no conflicts, the wordings of the constitutions are little more than reflections of the literary aspirations of the draftsmen and the acquiescence of their colleagues. There is, however, a constitution which is constantly being written and rewritten in the settled political convictions of the citizenry. Whatever individuals may have thought or failed to think, we can fix upon at least two outstanding accomplished facts, among many revealed in the statutes of all the states, which point unmistakably to the principle that in the collective political thought of our people public schools are part of the system of defenses of the Commonwealth. I refer to the compulsory attendance of all children within certain age limits and the unique character of tax-supported schools.

The requirement that all shall be subject to taxation for the support of schools is penetrating and drastic; but it may as well mean that legislators have intended to confer a benefit on the child as that they have been concerned with the training of the citizen. When lawmakers, however, plan that all children must attend school the purpose is not open to doubt: they believe that the safety and well-being of society require such action.

On the other hand, whatever individual legislators or legislative assemblies may have consciously intended in requiring support of schools by general taxation, the evolving statute law of the last century or more has worked out a meaning and intention of the whole body politic, with respect to this use of the taxing power, the purport of which can hardly be questioned.

It is repugnant to the whole spirit of our institutions to do for the citizen what he ought to do for himself, even though his individual benefit is also the benefit of society. Thus, the public health is safeguarded and health officers are paid, but the State does not pay the individual's medical bills. Water supply is essential to the well-being of the community, but the city charges water rates. Postal facilities are required, but we pay postage. Even the highway system, long a communistic enterprise, is returning to the equivalent of the original turnpike system through

gasoline taxes and automobile license fees. In even so fundamental a matter as justice, courts are provided, but litigants are expected to pay their own lawyers. In fact the State school is the one instance in which the police power is exerted and the bill is paid for all out of the public purse. The reason is to be found in the principle that beyond the public health, or the physical requirements of community life, or the need of communication, none of the American states dare trust the critical nature of the enlightenment of future citizens to the chance of individual support. The several states tolerate other public schools, private schools, or even in some instances the family school throughout childhood, but only on condition that these are rendering the essential service which the states require.

II

Judicial Decisions.—Our peculiar governmental institution is not our executive nor our legislature nor yet our supreme court in its quality of court of last resort. Other constitutional states have analogues of all three. We have, to be sure, the system of checks and balances not found in parliamentary government. But our real contribution is in the capacity accorded our supreme courts to interpret, apply, and often disallow statutory enactments. The practical effect is that every statute may in theory have to submit itself to the test of reasoned analysis, of scientific validation. Some good people dislike this feature of our government, either because they do not understand it or else because they are impatient of any kind of restraint. Judges are no doubt human and prone to error. Some judges are bad reasoners, but so are some university professors. Judges who are equally well qualified sometimes disagree in principle among themselves, but so do men skilled in the exact sciences. The net result of the system is, however, a body of reasoned interpretations of our polity, which is perhaps unsurpassed.

Now a judicial decision as a legal control determining the outcome of a lawsuit has force as soon as it is handed down. As

an intellectual production, it is only as valid as the learning, acumen, and insight of the judge make it—good because other reasonable and well-informed men must accept the reasoning as having force. Relying upon this characteristic of judicial procedure, we may expect to find light on our present inquiry. And so we do, in an abundance which is almost embarrassing.

Issues Presented.—As soon as the school systems of the various states had begun to get organized and the necessary statutes came to be enacted, litigation of necessity ensued. Litigious citizens could be found in large numbers who challenged the right of the legislature to make such laws as were made and the right of the school boards and teachers to carry on such schools as were in operation. The briefest possible list of cases which came into court, and are still arriving there, would fill many pages of this volume. For the most part, of course, the cases presented call for interpretation of statutes or the settlement of some trivial question, neither of which involves any fundamental constitutional question. The courts seem to have been very patient with the sort of thing last named. Can a school board employ married teachers or a third cousin of one of the members? Can the legislature prohibit fraternities? Can a teacher require a boy to bring in fuel, or write a composition? Must a parent sign a report card? And so on at great length.

On the other hand, many questions, some of them trivial in themselves, do involve serious constitutional issues and in the written decisions touching such matters we find our most illuminating material.

Contrary to what school people might expect, the argument in the decisions by no means always follows the written constitution. Quite as often the reasoning is by appeal to the nature of civilized society, to the quality of sovereignty in the state, to the limitations of the police power, to the nature of the school district, and like matters.

The issues which seem most often to call for exposition of the nature of the State school are those which hang upon the right of

the legislature to authorize the laying of taxes; upon the nature of the school district; upon the right of the teacher to discipline his school; upon the power of the school board to prescribe a program of study; and perhaps most of all upon the validity of compulsory-attendance acts.

It would be tedious and perhaps profitless to cite the multitude of cases which might be quoted. Typical decisions showing the drift of the reasoning will perhaps suffice. In selecting the cases, I have tried to include only those which represent doctrines held by all our state supreme courts, with few exceptions or none whatever.[3] It should be borne in mind that everywhere the use of the taxing power of the state for other than public purposes has been held to be invalid, despite the fact that the unbiased reader may think that in an occasional decision the court has stretched the definition of public purpose to the breaking point.

City of Lafayette et al. v. Jenners 10 Ind. 70 (1857).—And we have seen that common schools, as a whole, are made a state institution—a system coextensive with the state, embracing within it every citizen, every foot of territory, and all the taxable property in the state. . . . . The state is divided into districts for common school purposes. The cities and towns form a part of the districts, and must do so, to render the school system general and uniform.

Kelly v. Pittsburg 104 U.S. 78 (1881).—Every man in a county, a town, a city, or a State is deeply interested in the education of the children of the community, because his peace and quiet, his happiness and prosperity, are largely dependent upon the intelligence and moral training which it is the object of public schools to supply to the children of his neighbors and associates, if he has none himself.

Smith et al. v. Bohler 72 Ga. 546 (1884).—Was it a county authority [issue was right of a county school board to levy taxes]? We think it one of the most important of all the authorities of that county. Education is the cornerstone of a political fabric, especially where that fabric rests on the basis of popular suffrage. Neither roads, court houses nor district subdivisions, or other arrangements for good government, are more vital to society.

[3] For an interesting and useful collection of cases, see booklet entitled *The Public School as a State Institution* prepared by Professor H. H. Schroeder and published by Public School Publishing Co., Bloomington, Ill. The cases here cited and many others may be found in Schroeder's collection.

School district v. Atzenweiler 67 Kans. 609 (1903).—If it could be said that the sole purpose of education at public expense is to impose a benefit on the person receiving it and those related to him, the argument of counsel would have some foundation on which to rest. A wider view, however, must be taken of the subject. The common schools of the country, supported by an annual expenditure of millions of money raised by taxation, are not maintained solely to confer advantages on those to whom instruction is imparted, but in the interest of all classes and conditions of the people. . . . . The political rights of all are preserved best where the most intelligence is applied in the selection of representatives to make the laws, and in the choice of executive officers to enforce them.

Louisville v. Commonwealth for School Board 134 Ky. 488 (1909).—If it is essentially a prerogative of sovereignty to raise troops in time of war, it is equally so to prepare each generation of youth to discharge the duties of citizenship in time of peace and war. Upon preparation of the younger generation for civic duties depends the perpetuity of this government.

Fogg v. Littleton 76 N.H. 296 (1912).—The primary purpose of the maintenance of the common school system is the promotion of the general intelligence of the people constituting the body politic and thereby to increase the usefulness and efficiency of the citizens, upon which the government of society depends. Free schooling furnished by the state is not so much a right granted to pupils as a duty imposed upon them for the public good. If they do not voluntarily attend the schools provided for them, they may be compelled to do so. While most people regard the public schools as the means of great personal advantage to the pupils, the fact is often overlooked that they are governmental means of protecting the state from the consequences of an ignorant and incompetent citizenship.

Herold et al. v. Parish Board 68 So., 116 (La. 1915).—Education is one of the functions of government, and the public school system is a department of the government. Education insures domestic tranquility, provides for the common defense, promotes the general welfare, and it secures the blessings of liberty to ourselves and our posterity [The learned court would have perhaps done well to qualify its statement by remarking that public schools are capable of doing all this if they are effective.]

Other cases might be cited from the reports of practically every state in the Union, and all would reveal the same general import, namely, that each American commonwealth maintains public schools as State institutions not only as essential safeguards to American polity but also as the best guaranties of an orderly society under that polity. In brief, judicial analysis has

tended, as it must tend, toward an understanding and exposition of the nature of the School not only as a social but also as a civil institution.

The School is no new thing, but the American State school is a very new thing indeed. Less than half a century ago, citizens could be found in abundance who would "sacrifice the last dollar, sir, before they would submit to the injustice of being taxed for the benefit of other people's children." Much more recently, individuals would proclaim their willingness to "rot in jail before sending my boy to school, if I don't want to." Others would invoke Magna Carta, the Bill of Rights, and the Battle of Bunker Hill to protect their children from the tyranny of being obliged to learn English grammar—and their sons would appeal to the same authorities to prevent their children from learning anything else. All that is past and gone. Either such people have been convinced or else they have sought other means of discharging their complexes. In the main they have been convinced, and in the convictions of the people are the real foundations of the State school, but it must be remembered that it has required the painstaking judicial reasoning of many years to enlighten the people and bring about conviction.

Nearly every treatise on political economy or general economics sooner or later argues the issue of government ownership versus private ownership of industry, and with rare exceptions all such books give prominence to the State-school system as a well-established instance of government ownership. It would be hard to commit a more fundamental blunder. Under American polity, as well as under that of most states of northern continental Europe, the maintenance of State schools is as much an attribute of the civil state as are military defense, the courts, the coinage of money. A scholarly Kentucky judge, in a decision of twenty years ago, used the following language:

> If it is essentially a prerogative of sovereignty to raise troops in time of war, it is equally so to prepare each generation of youth to discharge the duties of citizenship in time of peace and war. . . . . The power to levy taxes

is an essential attribute of the sovereignty. . . . . So is the power to educate the youth of a state, to fit them so that the state may prosper. . . . . It may be doubted if the state could strip itself of either quality of its sovereignty.[4]

As well speak of the Pacific fleet as an example of state socialism. A city water-works or the Panama Canal doubtless is such an example, but not the public schools, nor the state universities.

III

What Is the School Money For?—Ordinary prudence and common sense impel the purchaser of a commodity or a service to assure himself of what he is buying. The reasoning of chapter i as to the nature of the public school and the unanimous conclusion of the courts touching the nature of the American State school give an unmistakable answer to the question, What is the school money intended to buy? It is intended to buy intelligent and well-trained citizenship and nothing else. It is not intended to pay for the entertainment of youth, nor for ornamental courses of study, nor for providing the individual with the means of livelihood, nor for furnishing the industrial corporation with a supply of specially trained labor. All of these things may be done and the courts will probably not interfere, although one may suspect that judges would often have liked to interfere with the gross perversions of public money indulged in by local school boards and erratic schoolmasters. All of these things may be done and the training of youth in the ways of civic intelligence and sound discipline neglected altogether, but the exorable law of the School will not be denied. The result will be an orgy of civic incompetency, and the growth of a body politic saturated with examples of personal infantilism.

From time to time publicists rise and gravely lament the failure of our public-school system to produce what it is supposed to produce. The comprehensive answer is, Why not develop a genuine school system calculated to produce what is intended and see what will happen? It has never seriously been tried yet.

[4] *City of Louisville* v. *Commonwealth*, 134 Ky. 488, O'Rear, J., previously cited.

The Program of Studies.—In the contemplation of statesmen, of our state constitutions, of our statutory enactments, of our court decisions, the school system has been trusted to produce enlightened and self-controlled citizens. That being done, it has always been felt that our institutions would be safe. The details of the process have been left to school people. The courts have in most cases—always, in principle—refused to interfere with the legislative assemblies, so long as the latter have kept within constitutional limitations. On the other hand, the legislative assemblies have usually kept their hands off the program of studies and methods of teaching. Where they have failed to do so, it has commonly been through concessions to importunate minorities with axes to grind rather than as a matter of principle. More and more, local school boards have followed the same practice and left the structure of the school, its program, and its methodology to those who are presumed to be professionally qualified.

There is thus imposed upon school people not a privilege but a very serious responsibility. That they have risen to the responsibility as a class, it would be difficult to show. In the last quarter-century, great and very encouraging progress has been made in the scientific study of the learning process and in the application of the methods of the trained psychologist to the problems of teaching and the management of pupils. All of this is very much to the good, but it does not reach the heart of the matter. The whole circle of problems which relate to the public school as an agency of organized society in the form of the State is left to the jurists and the jurists very properly decline to do more than their share; indeed, there is some reason to think that the time has come when jurists need guidance from the schoolmaster, and the latter is little qualified to give it.

IV

The School District.—In the American system the state is the unit. The schools exist to serve the needs of society as a whole and in most of the concerns of the daily life organized so-

ciety in America is found in the several states and not in the United States. For convenience of administration and government, including the raising of the school revenue, the school district is constituted. The school district is not an administrative subdivision of a centralized government as, under similar conditions, would often be the case in Europe. It is a quasi-corporation through which the state intends to achieve the essential purpose of the School. Like the township, county, and, in many of its aspects, the city, it is an agent of the state but not an administrative subdivision. The courts have with minor exceptions held that the tax-supported schools are state schools; that the officers of the school district are officers locally elected to carry out a state purpose; that the school money is state money despite the fact that it is locally determined, levied, and collected; that school buildings are not subject to the ordinary municipal regulations of the city in which they are located; and that, even when a city charter includes the framework of a city-school system, the school district nevertheless exists in the city limits but apart from the city corporation. The doctrine is a clear implication of the judicial conclusions touching the matter of the purpose of State schools, but it is difficult for even an American who is well versed in public affairs to grasp and perhaps wholly impossible for a foreigner to understand. That lawyers frequently fail to comprehend the nature of the school district is evidenced by the unconcern with which city attorneys continue to advise city officers that they may meddle with the schools. A recent Wisconsin decision expounds the fundamental principle with singular clarity. It is worth quoting in its essentials:

> While other provisions of Art. X plainly indicate that it was contemplated that district schools should exist not only in cities and villages, but in towns of the state, it by no means follows that the management of the schools should be any part of municipal government, and, so far as our observation goes, the legislature has never placed the management of the schools of a city with the common council, which constitutes the ordinary governing body of the city, but in all city charters, whether general or special, the schools have been placed under the control and management of a body commonly

called or known as the board of education. Thus the management of the schools has been kept separate and distinct from the management of the ordinary municipal affairs. . . . .

Local municipalities are organized for the purpose of dealing with matters of local concern. In such matters the state has little or no interest. The state, however, does have an interest in the education of its entire citizenship, an interest so deep and substantial that the framers of the constitution not only made provision for the establishment of district schools, but made provision for the creation of a school fund the income of which should be devoted to the maintenance of district schools throughout the state.[5]

The principles so clearly set forth here and elaborated in a multitude of other decisions represent no mere legal theorizing. On the contrary, they represent common-sense conclusions not only as to legislative intention but also as to the clear necessities of the case, supposing that we are going to have local action at all.

Many good democrats are scandalized by the doctrine thus set forth because they think it is repugnant to that local self-government which is the Ark of the Covenant. Periodically, we pass through an era in which the progress of "centralization" is deplored and the reasons why Rome fell and Russia turned Bolshevik are discovered all over again. The local grafter and the local demagogue contemplate the wails of the righteous and pro-

[5] *State ex rel. Harbach* v. *Mayor, etc.,* of Milwaukee, 189 Wis. 84 (1926).

See also:

Attorney General v. *Board of Education,* 99 Mich. 404.
City of Louisville et al. v. *Board of Education,* 154 Ky. 316.
City of Lafayette et al. v. *Jenners,* 10 Ind. 70.
Kennedy v. *Miller,* 32 Pac. 558 (Cal.).
Edmondson v. *Board of Education of Memphis,* 695 S.W. 274 (Tenn.).
The State, ex rel. Clark v. *Haworth,* 122 Ind. 462.
School Dist. et al. v. *Zediker et al.,* 47 Pac. 482 (Okla.).
McCormac v. *Commissioners,* 90 N.C. 441.
State ex rel. Walsh v. *Hine,* 59 Conn. 50, 63.
Farnum's Petition, 51 N.H. 376.
Minsinger v. *Ran,* 236 Pa. 327
Hutchinson et al. v. *Skinner et al.,* 49 N.Y. Sup., 360.
Eicholtz v. *Martin,* 53 Kan. 488.
Ass. Schools v. *School Dist.,* 122 Minn. 254.
Woodcock v. *Board of Education,* 187 Pac. 181 (Utah).

ceed to bind up the bleeding hearts in a fashion all their own. The truth of the matter is that local self-government is not in the picture at all. Let us see.

A city or an incorporated village or a New England town is in its nature a true municipal corporation. It is not sovereign, but it is endowed by the sovereign with civil capacity to manage its own affairs and to exercise police authority within certain limits. Now, its own affairs are matters in which good management redounds to the local community's advantage and to nobody's else, while bad management injures the local community but hurts no other community. Thus, the city may maintain a good park system or none at all. Neither the state nor any other community is affected. It may keep up a good fire department or burn up. The presumption is that if a town likes to entertain the red demon, neglect of the fire department is a good way to do it. The next town is uninterested save as the daily papers of the morning after furnish interesting reading. The theory is that a town will tend to mend its ways in concerns in which it alone stands to gain or lose. That is real local self-government, and in truth local self-government is one of the cornerstones of democracy. Where the nature of the municipal corporation is clearly understood, no question of local self-government need arise, for the corporation is local self-government at its fullest. Many of the woes of American city government arise from the fact that people think that the city is simply a minor republic, and conversely from the fact that state legislatures find it hard to draw the distinction between acts which guarantee the civil rights of citizens and those which meddle with local concerns in which the state is not interested.

But as we get farther away from frontier life and people move about with increasing freedom and facility, communities tend less and less to live to themselves alone. Thus, "in the good old days" a local community was privileged to choose between sanitating itself and suffering the scourges of frequent contagious epidemics. The interest of neighboring communities expressed itself in shotgun quarantines. But political intelligence

—positivism—emerged and the state intervened, created state health boards with large powers, and refused to allow local communities to remain dirty and content. Not that society organized as an American state objected to local communities dying in epidemics of smallpox or diphtheria or typhoid, but that other communities objected to dying too. But, be it noted, there is scarcely a health act on the statute book the original proposal of which failed to evoke in the complacent the specters of "imperialism" and of the sinister "man on horseback." Indeed, even in so essentially local a matter as fire protection, the time is probably not distant when municipal corporations will no longer be allowed to neglect the necessities. Not that society in general objects to allowing local communities to burn up if they desire to do so, but that such privileges imply increased insurance rates everywhere in a world which insists on being economic.

Now the state school system originated in a period when there was little or no thought of interfering with local autonomy accurately understood as such. But even in colonial times the school system was a state system or nothing. It originated in the conviction that the state is concerned with the upbringing of the citizen in a special and definite sense.

Nevertheless, the state school systems operated through the agency of school districts are controlled by the state governments only in a legislative sense. In executive management, in the raising and disbursement of the school money, schools are in practical effect as local as they would be if the state had no more concern with them than it has with purely municipal affairs. In order to understand this baffling and anomalous situation, we shall need a little more light on the nature of the school district.

Quasi-corporation.—Many, perhaps most, of the decisions which arise out of cases in which the litigants have failed to understand the State school as it appears in our several state school systems use the term *quasi-corporation*. The term is as irritating to the layman as such words as kilowatt-hours and calories used to be. As everybody knows who studied Latin in the high school,

quasi means "as if." So a quasi-corporation is a body politic which is not in a true sense a corporation, but which behaves as it would behave if it were a corporation. Such is the school district everywhere. Now judges do not invent nor legislate: they interpret and apply, and they endeavor to find a rational thread running through the fabric of the state so that the latter can be understood. Otherwise, we should be put to utter confusion. This creature in our civil fabric, then, was not invented: it evolved or grew out of political conditions which are well-nigh obsolete. Judges call the school district a "quasi-corporation" because that is what it is. Local attorneys and laymen who are impatient with the reasoning as "mere theorizing" are in reality simply discontented with attempts to understand our polity as a coherent system at all.

This agency of the civil state is almost the last survival of a method of conducting government which at one period was the accepted method under the Anglo-Saxon theory of government. Our Anglo-Saxon states are not originally administrative democracies. They are governmental and political democracies, but for purposes of administration they tend to create under the law administrative agencies which are supposed to function under legal control. Thus, down to the Mutiny Act of 1689, even discipline in the British Army was supposed to function under the laws sanctioning self-defense controlled by laws punishing assault and battery. The process makes for stability, and it has undoubtedly given room for the development of political democracy. On the other hand, it does not make for efficiency, and it gives room for ideational stereotypes to persist long after they have ceased to have any meaning. One of the latter, for instance, is the notion that the local school district is peculiarly a democratic institution, whereas it ceased to be that as soon as people got out of the habit of spending their lives in the communities in which they went to school. In discussing this matter, I am not thinking of the school district merely as one of the small subdivisions of a township. What is true of that type of district is in principle true also

of the township or of the city district. The school district grew up, partly as a response to our national insistence on managing our own affairs, even when they are not really our own, and partly on account of geographical separation in a time when communication was not easy. Such being the case, it was necessary to accept conditions as they were and to formulate some theory under which schools intended to serve a state purpose could be carried on.

Hence the theory underlying administration of the state-school system through the agency of the district as a quasi-corporation is that certain legal rights are created and that the maintenance of such rights in the courts constitutes administration. The district is created a body politic with power to sue and be sued, to elect officers who shall act in accordance with law and not under the mandate of the local electorate, to raise money, and lay out the same. There is at the head of the system a shadowy kind of ministerial officer known as the superintendent of public instruction, or identified by some similar title, but in effect there is no administrative head to the state system whatever. Judicial procedure is the head just as the nearest justice of the peace was the head of discipline in the ancient British army.

The effect is that it is attempted to exhibit the purpose and organization of the state school system as a mosaic and not as a solid painting. The local school districts are the bits of glass, tile, or what not which make up the mosaic. It is expected that legislative tinkering can make the mosaic a picture having unity and a message. For the last forty years, especially, legislatures have constantly been engaged in tinkering the fiscal pattern, enlarging the pieces here, removing pieces there, changing the color in parts without reference to the color scheme as a whole. The analogy is perhaps somewhat remote, but it is entirely accurate.

Governmentally, and as a piece of political theory, the school district organization is a wonderful product of Anglo-Saxon political evolution. Administratively, it is almost nil for the simple reason that administration is left out of account.

THE SCHOOL MONEY IN EFFECT IS DISTRICT MONEY.—We have seen that the courts have been diligent in showing that in principle the school money is state money and that no other legal interpretation is possible. The meaning is that the money is raised to pay for a service which is essentially a state purpose. The electorate of the district is not left to decide whether it will raise any money at all as would be the case if the district were a true municipal corporation. Commonly, limits are fixed beyond which the local electorate or its representatives are not allowed to levy taxes. But the money once raised must be spent for the purposes prescribed by law; it is not subject to the will of the local people. That is as far as the courts can go. On the other hand, the aggregate money available in the typical state is in the main the aggregate of what is raised by the districts.

Hence, the first of several qualifications to the optimistic findings of chapters ii and iii is to be found in the civil structure of the school system, and especially in the plan of fiscal support through the curious and obsolete quasi-corporation known as the school district. Whatever the potential resources in the economic structure of society and the extent of the popular income may be, they cannot be reached when the system for the collection of revenue is a series of small agencies many of which, if not most of which, are themselves powerless to raise money enough to support the local schools. In other words, the district method for the fiscal administration of a state system is fundamentally incapable of utilizing resources which may potentially be available for the achievement of the state purpose.

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CHAPTER V

PAYING FOR WHAT?

We have seen that the economic situation in modern America, of which the free-school system is an integral part and a critical factor, is necessarily one which has in it the potentiality of adequate support of effective schools. We have further seen in our survey of judicial analyses of the place of public schools in our civil structure what is meant by schools which are justly to be supported by taxation. No economic structure which it is possible to conceive is capable of supporting whatever kind of school system popular fancy may desire, and it is extremely doubtful that either here or elsewhere could what would be essentially a universal private school be paid for.

The mechanism by which the economic strength of society is applied to the support of the free school is taxation, and taxation has its own peculiar limitations. No matter how ample the base upon which taxes are laid, taxation always has a tendency to dry up its source, even when the most scientific system is employed. In short, the school revenue is always limited by the mechanism through which it is raised, although the limit may slide up or down as the popular income changes character, increases and diminishes in aggregate amount, and as the revenue itself is well managed or ill managed.

Public Schools Do Not Create Value in Exchange.—We cannot argue problems in the economy of the tax-supported school or university by inferences drawn from the economy of the free market. The school has no commodities or services to sell in the open market and hence its revenues are not determined by the laws which govern price-fixing, credit, and the like in the commercial world. There is no flow of transactions around the circle, as there is in commerce and industry, so that the cost of

production promptly comes back as income from sales. If it were otherwise, the schools might fix the price of their services in the form of tuition charges. The revenue would quickly adjust itself under the law of supply and demand and people would choose between buying schooling and paying the price and buying other desirable things. But there would be no such thing as schooling of the masses.

The principle here noted runs all the way through any study of the school money, and failure to realize and give heed to the principle is the parent of endless fallacy and blunder in school administration.

Thus salaries, which constitute by far the largest single item in expenditure for schools, must be arbitrarily determined. At least they cannot be fixed either individually or collectively on the principle of bargaining for "all the traffic will bear," for there is no traffic. The school board cannot raise the price of tuition every time it raises the salary schedule, for tuition is the negation of the free school. The limiting factors are always: (1) the limits of taxation; and (2) the schools' share in the total tax money.

Hence, it is of critical importance to determine what is the purpose of the tax-supported school and to separate from it: (1) those functions which belong to other obligations of society, notably subsistence; and (2) those which belong to cultural institutions which naturally operate in the free market, those which can make a full charge for their services.

I

The Citizenship School.—Now there is nowhere in the constitutional bases upon which our schools rest any propagandist intention such as appears again and again in the State schools of continental Europe and in most ecclesiastical schools. One might expect to find the deliberate purpose of regimenting children into unthinking acceptance of our institutions, but no such purpose is evident. On the contrary, in the documentary mate-

rial it is everywhere manifest that there has been complete confidence that our civil institutions are fundamentally right and that the more widespread popular enlightenment might become the more they would be cherished and utilized in the direction of social progress. Nor is there any evidence that either legislatures, courts, or people have ever thought that school systems maintained by the several states should be confined to instruction in American political institutions, despite the fact that legislatures have occasionally reminded school people through statutory enactment that such instruction should not be neglected. On the contrary, the purpose of the citizenship school has very generally been thought to be not only good government but progress in the welfare of the people and in social justice, upon which in the last analysis good government rests. The constantly recurring terms are "intelligence" and "sterling moral character" diffused among all classes of the people. In general, the school people have been left to formulate the curriculum and the school management which are best calculated to achieve the result contemplated.

But the writing of the citizenship curriculum is no simple matter. Certainly it is beyond the scope of our present purpose. Nevertheless, it is relatively easy to scrutinize tendencies in the content and purpose of the curriculum, and to segregate typical content which has no clear purpose in the training of the citizen. More than that, the reasons for the inclusion of much of this content were not only merely unrelated to citizenship-training but the subject matter had quite a different purpose. I propose to list certain such instances, not with any intention of making a complete survey but rather for the purpose of illustrating content and purposes which are no proper charges upon the revenue of the citizenship school.

Preparation for College.—The outstanding instance is probably preparation for college, and preparation for college in principle means, not citizenship training, but preparation for the pursuit of further academic learning. Practically, it often means merely the artificial attainment of social status. During the last

quarter-century, colleges have greatly expanded their lists of acceptable offerings which the matriculant may present for admission. On the whole, the purpose has been to make it easier to get into college and to assimilate college policy to that of the high schools. If transition into college meant passage from one stage of citizenship training to another, the process would comport with the essential purpose of the State school. It seldom, however, means anything of the sort. It means rather the privilege of pursuing academic subjects which, however much they may contribute to enlightenment in general, naturally and properly have no primary citizenship purpose. The evidence for the foregoing statement may be found in the registrars' books of the colleges themselves, in which are listed the subjects accepted for admission. Practically, in the cases of many students, the privilege just named is merely incidental to the privilege of the joyous pursuits of our new leisure class, namely, an unrestrained adolescent round of fraternities, athletics, campus activities in general.

The college-preparation objective being the only one of which school administration is commonly definitely aware, and for the attainment of which some degree of responsibility can definitely be fixed, it tends to determine the policy of the whole system. In effect, the school money is used to pay for the attainment of a private and individualistic purpose and not for a civic and social purpose. The motive is the motive of the private school.

Now the foregoing argument might be taken as an attack on the validity of our college-universities as cultural institutions. It is nothing of the sort. It has already been pointed out[1] that the University is a true social institution. It is not, however, a State institution even though a particular university may be maintained by one of our American states. The State school, on the other hand, is a civil and State institution. The University exists: (1) for the pursuit of scholarly interests; (2) for professional training; (3) for the training of investigators; (4) for the discovery of new knowledge. In every instance the objective

[1] See chap. iii, p. 56.

is primarily individual and the products are socially valuable only in the sense that all genuine and productive effort is socially valuable, the efforts of the press and of writers and investigators not connected with any university, for instance. The state, it is true, may at times find it desirable to subsidize university studies and to provide for the establishment and maintenance of state universities; but that is a widely different proposition from providing free training or partially free training for all students.

University Support.—University training proper is therefore within the purview of contract and the free market. The revenue in general should then be drawn from payments for service rendered, that is to say, full tuition. A qualification is to be made with reference to training for certain professions, noted below.

The historic argument against this position is the disability laid upon the impecunious student. I think the argument really rests upon failure to distinguish between School and University, but, be that as it may, it can either be accepted or rejected and the result is much the same.

If accepted, then the proper course is to segregate the cost of training the poor student and carry it as a definite and recognized charge for which a definite revenue is appropriated and set aside. There is no good reason for offering free or partially free training for all, simply because some cannot pay, especially when the expenditures of many students are decidedly upon a luxurious scale of living.

If rejected, then the situation becomes exactly that which obtains elsewhere in our economic democracy. There is no better reason for providing university training free than for providing medical service or legal service free, postal facilities or water supply free. Nor would a service-cost policy bar out the really capable and diligent poor student. Our credit system is altogether too well developed for that. A life insurance policy and an established reputation for honesty, ability, and diligence are ordinarily sufficient credit security for any student. The prod-

ucts of university training, with the exception of certain professions noted, are salable in the free market and are so realized upon. So long as credit is available, as it is, there is the means of liquidating borrowings.

There is a great deal of false sentiment wasted on the subject of free university training. In effect, faculties and not the taxpayer pay the bill in inadequate salaries and sweating; the institutions pay it in degradation of the presidential office to mendicancy and to political intrigue before state legislatures.

The issue is pertinent to the school money since revenues which go to the support of free university training originate in the same sources as do the revenues of the State schools.

"Accomplishments."—A parent comes to the personnel officer of a high school and begs that a linguistically inept girl be allowed "to take French." "Why?" "What can the French language contribute to the upbringing of this American girl?" "Oh, it is so cultural, you know." The mother fancies this academic subject as a hall-mark of caste. Thus, the curriculum tends to become filled with content, which, whatever might be its potentialities as sound educational material, belongs in actual effect to what is sometimes listed as "accomplishments." One of the cardinal motives of the private school is present, namely, preparation for "running with the pack," and if possible a pack which is socially more eligible than that with which the parents have run. The school money is used to buy social prestige.

Assumption of the Burden of Family School.—If the reader will give some attention to the growth of the welter of content which has come to make up the modern public-school curriculum, he can hardly fail to be impressed by the extent to which it represents the assumption of schooling which once belonged to the home and the family school. As we have seen, much of this was inevitable, since requirements of civilization are involved which are not within the competency of most families. On the other hand, much of it is merely the lifting of burdens which the family as a social institution is inherently qualified to carry and

which the public school is inherently disqualified from bearing. An astonishing instance of the lengths to which this perverted relief of the family can go is the movement in the direction of State-supported infant schools. Now, as I have pointed out,[2] the foundations of personality are laid in the affections which grow out of the relations of parent and child. As such, they are inherent in mammalian reproduction and in the nature of human infancy. Admittedly, society is deeply concerned with wholesome infancy for every child. The intelligent policy, however, is not relieving families of their peculiar duties, but rather the training of parents to meet those duties. The principle applies, of course, particularly to the natural school of infancy, but it likewise applies to the obligations of that family school which must perforce everywhere parallel every public school whatever, so long as parents have custody of the children 85 per cent of the time. Even Sparta, which carried its State school to lengths not undertaken elsewhere, never ventured to meddle with the family school of infancy.

In this relief of the family, the school money is being used for purely private purposes. The next step is to use it for the subsistence of the children and of the parents themselves.

II

Vocational Training.—During the last twenty years or thereabout there has crept into the program of public-school systems an expensive series of enterprises classifiable as vocational training. For the most part they represent very little preliminary investigation touching the actual requirements of American industry and trained workers or of American social conditions. As in so much of our "educational endeavor," inferences have tended to be drawn from European sources without reference to essential differences between the European social and industrial organizations and our own.

In some instances, notably in agriculture, these enterprises

[2] See chap. i, p. 8. Also Cameron, *The Nervous Child.*

have in the main presented efforts to make practically intelligible the productive life which large numbers of citizens must lead and as such have been clearly a part of the process of developing the economic citizen. In other instances, in industrial regions, they have also been designed to make intelligible the common industrial and commercial life of the people. As such they, too, have been clearly related to the process of schooling the citizen.

On the other hand, the real purpose of the vocational program as such has not been to develop intelligent citizenship but rather to train workers for the specific requirements of particular industries. The purpose may be a socially desirable one, but it is socially desirable in no other sense than is the presence of a handy grocery or public garage. The purpose is private in character, both from the standpoint of the worker and from the standpoint of the industrialist. The cost of such training is part of the cost of production, should be paid for as such and liquidated through the mechanism which fixes a price on the commodities produced. In other words, the training service, unlike the services employed in the schooling of the citizen, has a value in exchange. It operates in a free market and is not in principle a charge upon the tax money. The claim frequently advanced by the industrialist, that such training is in the interest of the general welfare, to be paid for by a public tax, is precisely the claim which he stigmatizes as socialistic and communistic when it is advanced by others than himself and for purposes which he does not approve.

Should the cost of such training in principle fall upon the worker? I think not. The value in exchange which is at the heart of the matter is administered by the manufacturer who sells the product of industry. The worker receives a wage and, so far as he is concerned, his skill is paid for exactly as that of the teacher, clergyman, military officer, public service employee is compensated, and not as the lawyer, physician, and other professional practitioners in private practice are paid. The latter have direct access to the open market; the wage-earner has not.

From the standpoint of effective and economical organization of the school system, it makes little difference whether vocational schools of the trade type are carried on by the State, or by the industrial corporations which require trained workers, or by organizations of wage-earners. If these enterprises are conducted by either of the two agencies last named, the cost is automatically allocated. If the State conducts such schools, as it conducts the post-office, the Panama Canal, municipal docks, and the like, then a specific charge for service rendered should be made, and collected from the industry concerned.

Professional Training.—Similarly, at university level, there has developed a very extensive program, free or partly free, of specialized training for the learned professions, and the latter have themselves multiplied in number. The training of such workers is perhaps the original function of the University.

Now in the United States this purpose was originally limited to the training of clergymen. Such other professions as were in existence were long recruited through an apprenticeship system. Youthful Hippocrates followed the old doctor from one bedside to another. The legal aspirant "read law." The ideology thus built up around the training of clergymen has persisted down to our own day and confused our thinking.

The training of ministers at public expense, or at the expense of the religious bodies which they were destined to serve, was, and still is, fundamentally sound for two reasons. In the first place, the ministers were destined to become the servants of a major social agency working on salaries which had to be arbitrarily determined. Second, the prospective incomes of ministers could never be sufficient to justify individuals in incurring obligations for training. Even assuming that clerical incomes could arbitrarily be fixed at levels which would induce individuals to seek and pay for their own training, the Church could find no economic advantage in doing so. Provision for free training was always more economical than the maintenance of a salary level which would make the opposite process possible. A similar situation exists, and must always exist, in relation to the training of officers for

the army and navy, teachers, and in general workers in the public service.

On the other hand, the incomes of lawyers, physicians, engineers, and most other professional and semiprofessional workers are determined by the utility of their services in the free market, either directly in private practice or indirectly, as in the case of wage-earners. The training is primarily a private advantage and not primarily a public advantage. As such, free training is exactly as much a free gift as would be an allotment of working capital to the young business man. But what if we had no lawyers, physicians, pharmacists, dentists, engineers, veterinarians, tree doctors, trained nurses, and so on? What if we had no provision dealers, locomotive engineers, bankers, hotel-keepers, delivery men?

It is frequently argued that society needs the best native talent in the learned professions and that, if individuals were required to pay the cost of training, the effect would be to limit the training to the wealthy classes. A modicum of sober reflection, with prejudice and sentimentality laid aside, must convince anybody that the argument is unsound. If carried to its logical conclusion, it means that everybody, over and above his general education, ought to be given his vocational start in life at the expense of the public, lest society suffer from the suppression of native talent. But we have no effective artificial method of selecting native talent, even if we could define the latter. About all we know of the matter is that the personal characteristics which weigh most heavily are determination and clear purpose and intellectual competency. These are precisely the qualities which individual financial responsibility for the cost of training most accurately selects. Further, here, as elsewhere in the field of university training, our credit system furnishes a substitute, if needed, for family financial support of the student.

It is further argued that by providing professional training, either free or at less than cost, society secures compensation in relatively lower charges for professional service. On the con-

trary, fees are determined by demand and supply.[3] They are what the traffic will bear, restrained by professional ethics and not by gratitude for the training received. Especially is the principle applicable in an age in which professional workers, like industrial workers, combine and organize for the purpose of controlling admissions to their callings and fixing the price of services. Thus does the economic democracy of the group work out its problems.

Another argument for free professional and university training is appeal to the "equal opportunity" slogan.

Now equal opportunity is in the main guaranteed by our political and social system. On the one hand, all are placed on an equal footing before the law and no legal privilege is given to a particular class, as it once was. In so far as we fail to realize our ideals, our own ignorance and selfishness and sloth are to blame and not our institutions, the very defects in personality and social custom which effective citizenship schools are designed to eradicate. On the other hand, the worst inequality in opportunity disappeared when our fundamental principles put an end to economic status, the condition in which every boy must follow in the vocational footsteps of his father.

There is vital, fundamental, and withal practical, justice in the equal-opportunity motive so far as it applies to the citizenship school. Neither natural justice nor the well-being of the democratic State is compatible with the existence of a school system in which equal opportunity is subject to the chance of the local school district's ability to support good schools, or to the whims of a local electorate, or to the ambitions of local demagogues. A state school system which maintains effective schools everywhere is the fundamental, and sufficient, step in the direction of equal opportunity.

[3] It is sometimes contended that professional incomes represent investment returns on the total cost of professional training treated as capital. Adams, *Science of Finance*, p. 371, in discussing a similar problem with respect to wages of craftsmen, exposes the fallacy of the argument.

To bring the university and all kinds of vocational training within the reach of the motive is to aspire to a Utopia. There is no society as yet which could possibly pay for any such object, even if it were in itself desirable. To attempt to do so, as we do, and to carry the endeavor as a tax burden simply means that neither the citizenship school, nor the trade school, nor the university can be adequately supported.

A final argument is found in the "training for leadership" theory. An academic officer who tells himself that he is "training leaders" must be rather complacent. Still, the statistics seem to show that the real leaders of modern times are prevailingly university men. The organization of modern society is probably making it more and more impossible for any others to emerge. But whether the universities actually generate leadership or merely enlighten and equip people who have it in them by dint of inborn or acquired capacity is still a moot question.

However that may be, the critical point for our purpose lies in the fact that most leaders by virtue of their leadership rise into the higher-income classes. In other words, they reap an individual economic advantage upon which the cost of their training is a proper charge. They can exploit their leadership qualifications for a monetary return. They cannot so exchange their citizenship qualifications, but on the contrary the latter probably entail monetary sacrifice, as they do with all of us.

Altogether then specific vocational training, the benefits of which accrue to the individual and to industry, rather than to the primary requirements of organized society, makes large inroads upon the school money. To that extent, people cultivate a social philosophy which is communistic so far as their own benefits are concerned, and purely individualistic in the returns which they make to society. The logical implication of free or partly free vocational training is that the recipients should practice their professions on incomes arbitrarily determined by the State and that the State should fix the price of industrial products—an outcome which is utterly repugnant to democratic principles.

In all the foregoing argument, the objection may be raised, So long as the people in the end pay, what difference does it make how they pay? It makes all the difference in the world whether they pay through the process of taxation or through free purchase in the market. In the former case, not only is the burden laid upon comparatively few but taxation in its nature is relatively rigid and tends to interfere with the natural processes in economic society, whereas purchase in the free market is contractual, flexible, and the burden is adjusted to individual need at the time when the need is felt. Further, where free purchase is compatible with the nature of the service rendered, the people can have much more of the service and better service than is possible under support by taxation. A striking illustration is to be found in the effect of the recent tendency to finance highways through the gasoline excises, a practice to which we shall have frequent occasion to refer. The effect is that relatively poor states are able to build magnificent highway systems which would be utterly impossible if general taxation were the instrument employed.

III

Irresponsible Schemes.—A final consequence of lack of concern for the content of a schooling which is supposed somehow to produce disciplined and intelligent citizens is the reign of schemes of education instituted by irresponsible minorities or by amateurs in executive position. Such schemes lead to innumerable extensions of the program and innumerable accessory enterprises.

"Education" is complacently described as being "as wide as life itself." If that is so, and it is further true that schools ought to be supported at public expense, then all of us must in logic expect to be taxed for all that life has to offer for the benefit of all of us. Just where the taxpayer is to be identified in the circle is perhaps an academic impertinence.

"Education is democracy." The theory may equally well

mean that in a self-governing state education is superfluous, or that whatever is put into the schools through popular acquiescence must in the nature of things be eternal verity. Good salaries and other financial blessings must appear without visible paternity.

"Schools should provide for all the needs of all the children, and of the whole community." The wide-as-life motive. Freedom and liberty, self-expression, socialization, free lunches, elimination of privilege, advertising the city, bigger and better babies, and so on ad infinitum. Literally without limit, for there is no terminus to that pathway.

Now, perhaps most of the things desired by the "educator" are good and desirable in themselves, but it by no means follows that they are part of either the objectives or the processes of the citizenship school.

To a considerable extent, they are ends which ought to be attained and paid for by the individuals benefited. In such cases, it is the reverse of citizenship-training to teach young people to expect from the State what they ought to provide for themselves.

In not a few cases they are the needs of the necessitous man, which civilized society provides for through the cautious and systematic use of charity, or through agencies devoted to the assistance of the needy—student loan funds, for example.

In some instances, notably those of costly playing fields and gymnasiums only remotely related to the requirements of physical training, they represent utilities which the corporate municipality normally and properly provides for through its park system, if at all.

When elaborate school buildings are desired, primarily as a means of attracting population and stimulating trade and the real estate market, then the proper and responsible source of funds is the business people who expect to profit.

Limits.—Thus the conversion of the citizenship school contemplated in our constitutional foundations into a private school open to all is a process which inevitably sets up an unlimited

school system in the presence of a revenue which is itself in its nature limited at any given time. The result must be a state of chronic bankruptcy or at best chronic inadequacy. And so it is. The citizenship school, on the other hand, is in its nature limited by its definition. It operates as an integral part of the civil and economic state. If it is effective, it transfers out of the aggregate of individual and governmental wasteful and luxurious expenditure, money and credits which accrue to the potential tax fund upon which it must rely for its support. It enhances the aggregate of popular earnings and improves distribution thereof. It therefore expands its own tax base.

The development of a State school which is a citizenship school and nothing else is evidently an undertaking which requires patient and severe analysis, but the underlying principles are at hand. They have been developing throughout the whole historic process of the evolution of the School. Perhaps nowhere have they more adequately been stated than in the judicial analyses which have gone along with the growth of the American commonwealths. The malady which chiefly makes it hard to secure needful school money, in a society in which both the general economic foundations and the financial organizations are incontestably adequate, is opportunism and its legitimate child, the domination of interested and irresponsible minorities. The outcome is a thriftless school system which is always poor just as a thriftless individual is always poor, no matter what his income may be.

IV

Program Cost and Enterprise Cost.—Lest the reader be deceived in his thought about the financial economy of the program of studies, it is perhaps well to record at this point certain principles which govern and limit the actual saving in money expenditure through the elimination of subject matter and courses. I have discussed the matter elsewhere at some length.[4]

[4] See my *Financing of Public Schools in Illinois*, p. 118 ff., Publications of Educational Finance Inquiry (1924).

The amateur is prone to think that there is a direct relation between subject matter contained in the curriculum and the cost of the school. If Latin or chemistry is eliminated from the high-school offerings or one of the "fads" from those of the elementary school, then there is a saving to the extent of the computed cost per pupil-hour. There sometimes is such a saving, sometimes no saving whatever, and sometimes an actual increase in the total costs.

Let us take, for example, any typical subject in a departmentalized high school—Latin, for instance. The cost allocated to Latin can readily be computed; it is in the main salary cost and cost of special equipment. If we eliminate Latin, we shall dismiss the Latin teachers and buy no more textbooks for that subject. But the pupils will have to be provided for elsewhere. If the Latin sections are full and the pupils have to be transferred to other departments which also have full sections and which show the same costs as the Latin department, there will be no saving whatever. Additional teachers in the other departments and additional equipment will have to be provided. If the Latin sections are relatively small, the pupils can partially be absorbed in other departments and a small saving will result. If, on the other hand, full Latin sections have to be transferred to full departments which are relatively costly, such as are most practical arts departments, the elimination process will actually increase the cost of the school.

But if a certain school content, drawing in many elementary schools, for instance, is taught by a special teacher, while the regular teacher is unoccupied with classes, the elimination of that content will decrease the cost of the school by the salary of its teacher and the cost of the special equipment required.

In order to define the situation, it is proposed to make a distinction between a *school enterprise* and a *program element*.

A school enterprise is a teaching or staff activity, or a series of activities, requiring special personnel and equipment, the elimination of which would reduce the cost of the school system

as a whole by the expenditure necessary to maintain such activity or activities. Thus the high school is a separable school enterprise so far as pupils are concerned who are beyond the age of compulsory schooling. Medical inspection or a bureau of research is an enterprise. So is the kindergarten. Drawing, music, and manual training in the elementary school are enterprises if special teachers are employed.

A program element, usually a course, is a teaching activity, the elimination of which would simply result in transferring pupils to other similar elements and increase the cost of the latter.

Henry[5] subjected the issue to critical study. In his twelve cities, he found that the reduction of all course offerings in the high school to a minimum of four prescribed subjects continuing through four years would result in reduction of the whole cost of the high school by percentages ranging from less than one-half of 1 per cent to somewhat less than 19 per cent. In general, the smaller the school the larger the reduction, other things being equal, which will accrue from eliminating program elements. The reason is to be found in the principle that small schools tend to have small sections, and therefore courses retained can to a large extent absorb the pupils released by courses eliminated.

Hence, there is comparatively little actual saving in expenditure to be achieved for a given enrolment in the line enterprises, kindergarten, elementary school, high school, and junior college through curtailment of the curriculum. The school cost is mainly a pupil cost and not a curriculum cost. The economy of the curriculum consists in better focusing the program of studies upon the purposes of the citizenship school.

On the other hand, there is large room for saving, (1) in the separable enterprises which form part of the programs of many schools, and (2) in the accessory enterprises to be found, often in great numbers, in city-school systems.

[5] Henry, *A Study of Public School Costs in Illinois Cities*, pp. 64–73, Publications of Educational Finance Inquiry (1924).

CHAPTER VI

SOURCES OF THE REVENUE

National economy refuses to be confined by state lines and much more by district lines. Indeed, it refuses to pause at national boundaries. Exchange of goods and services flows freely throughout the United States, under the influence and control of a national monetary system, of a banking system which is fundamentally national in its scope, and under a constitution which forbids the several states to erect artificial impediments. Thus, production in Oklahoma may turn up as income in New York and the title to land in Montana may be in a citizen and resident of Massachusetts. Furthermore, a child who was schooled in Alabama and at the expense of that state may very probably contribute his citizenship for better or worse to Illinois; and the reverse may equally well be true. Hence, we are forced in broad lines to think in terms of national economy. Nevertheless, in actuality for most purposes the revenue is derived from within state lines and, as we have seen, from within district lines. The mechanism which is at work in the flow of the school money operates in the same manner everywhere, but the tangible outcome of our reasoning, in terms of economic resources which is true for the United States as a whole may or may not be true for a particular state or for a particular district within that state.

I

Source in the Political Unit.—About 65 per cent of the revenue of American State schools originates in local school districts as that political unit has been defined and described in chapter iv. That is to say, 65 per cent of all money which is available for carrying on State schools is strictly a matter of district taxable resources and is the aggregate of what many thousands of individual districts can and will raise. In many instances the

districts might raise more, and in many other instances the districts are taxing themselves to death to support inadequate schools.

About one-quarter of the revenue is raised by the several state and county governments. Less than 2 per cent comes from the income of school lands and invested funds. The remainder is undistributed revenue arising from various state, county, and local sources including the federal appropriations for vocational training.[1]

Now, much of this state and county school money, as distinguished from local money, originates in a general property tax which is apportioned to the municipalities or the counties in which school districts are located to be levied and collected together with the ordinary local levies and collections. The tendency is to distribute revenue thus derived back to the local districts, not in proportion to the amount raised but in accordance with some formula which is intended to equalize the tax burden borne by the several districts. Nevertheless, it is in origin local money, and its total amount is limited by the aggregate taxable resources of the several districts.

Some of these statements may at first sight seem like quibbling. Is not each state divided into school districts, and are not the aggregate taxables of the districts the same thing as the taxables of the state? Not so, not even for the aggregate of property which is levied upon under the general property tax. The aggregate value of the property is one thing, the taxable resources quite another. The taxable resources of a given school district, as we shall see, depend not merely on the true value of its inventory of property, but upon the tax rate which the local property will bear, upon its tax-paying ability other than that found in the income derived from property, upon the proportion which its school obligations bear to other local obligations.

[1] The figures are computed from the data presented in the *Biennial Survey of Education for 1922–24, U.S. Bureau of Education Doc. 23* (1926). They vary somewhat from year to year, but the range of variation is not great.

Some of the state money originates in state income or corporation taxes, or both, or in some other tax laid upon objects which the districts cannot tax. As such it is, of course, an addition to the aggregate revenues raised by the districts.

The rent of school lands is an addition to the tax revenues of the districts in which the lands are located, or to the amount which the state has to distribute in those states in which the school lands have been consolidated in the hands of the state. In the beginning, great things were hoped from the school lands, but the resource is now negligible save in isolated instances in which the lands have turned out either to be rich in minerals or else valuable city property. The history of the management of these school lands is a sorry story.

The income from interest-bearing invested funds is a minor source of revenue, especially when the "investment" represents simply the confiscation of the school funds by a state or municipal government with a covenant providing that the state or city will pay a fixed rate of interest in perpetuity. Payments are then made from the proceeds of taxation. The school money is not benefited save as school executives are sure of an income for which an appropriation need not be sought annually, or biennially, as the case may be.

In brief, then, the school revenue in the United States is in the main district revenue, and increasingly so, so far as its origin in the will and ability of the appropriating political unit is concerned. Whatever other limits may exist, the revenue is limited by what districts as such can and will raise.

With the warning thus introduced, we shall proceed to the discussion of the sources of the revenue as a problem in state and national economy, returning to a study of what is involved in district financing in the three chapters which follow.

II

Source in Taxation.—It is easily inferable from the foregoing that the school revenue is almost entirely tax money. With-

out regard to the methods of taxation employed, which we shall presently have occasion to study, the mere fact that the revenue of the schools like that of other forms of governmental activity is tax money is the nib of the whole matter. Taxation, and not exchange in the market, is the mechanism by which the revenue is gathered.

It is often confidently stated that the people can buy education as well as they can buy cosmetics, tobacco, or automobiles. The mounting tax bill is often dismissed by writers with the summary statement that we now do things collectively which we formerly did individually.

In a sense it is true that we can buy schooling for children as well as we can buy other things, and in aggregate amount as great or greater. But it is only true if we pay for the goods and services thus made available as a problem in ordinary individual purchasing. In that case, the market automatically adjusts itself, provided there is productive capacity enough in primary goods, and we have seen that there is.[2] But in that case we cannot have universal schooling, for the same reason that not everybody can have a new automobile every year. The annual individual bill for schooling would be more than most people could pay.

The fact that we do things collectively much more than we once did is valid argument in the present connection only as it applies to governmental services which represent value in exchange and for which the government collects payments on a contractual or contingent basis, such, for instance, as water supply. For governmental services which do not represent value in exchange in the open market, the situation is the same as it is in the case of schools.

Limits.—The limit imposed by the tax mechanism itself is found in the principle that every tax tends to destroy its base. The meaning is that beyond a certain point, differing greatly in different forms of taxation, the objects which are taxed tend to disappear. Thus when residences are taxed beyond the rental

[2] See chap. ii, pp. 40–42.

value, they cease to have any economic value. Overtaxed agricultural land means deserted farms. Excessive taxation of individual incomes means that money needed to serve as working and fixed capital will be insufficient, and production upon which the national income depends will fall off. We shall study the problem more in detail in the next chapter.

III

Incomes and Not Wealth the Source.—We have been so long habituated to doing our tax thinking in terms of assessed valuations of property that we are easily deceived into believing that resources are expressed in terms of wealth and that wealth in general is all income-producing property. The fallacy has already been explained.[3] We pay no true taxes whatever otherwise than out of income, either past, present, or anticipated. Our most common tax, the property tax, is laid *in proportion to the estimated value of property* but it is paid out of income. Thus the tax which I shall pay on my residence is determined by the estimated value of that residence, but I pay my tax bill from my professional earnings. My friend, the farmer, is taxed in proportion to the estimated value of his farm and live stock, farm machinery, and buildings, but he pays the collector out of his earnings. My neighbor, the manufacturer, pays a tax on his plant, but he pays it out of his earnings. Some of us pay Uncle Sam, or the state in which we live, taxes on our incomes, computed *in proportion to income* and paid out of income. Some of the property, like the farm and the factory, yields a money income which appears on the books and which can be used for the payment of taxes. Some of it, like the residence, yields no money income, and the tax is paid out of income which is unrelated to the property.

Thus the source of the revenue is the incomes of the people and not their wealth in the economic sense of the term wealth. In estimating an individual's ability to pay taxes, we must begin with his income. Many people, notably farmers, have relatively

[3] See chap. iii, pp. 45–47.

large property holdings and small incomes. Many people, especially city dwellers, have large incomes in the form of salaries, interest, dividends, etc., and little or no real property whatever. In comparing one school district with another in respect to ability to support schools, we must begin with the aggregate popular income in the district, or more properly with the aggregate of incomes which are above subsistence cost in the two communities. In similarly comparing one state with another, we must begin with a study of the aggregate popular income in each of the states —not with the value of the annual production in each, for much of the income associated with that product may appear in a third state, but with the count of incomes in each state and accessible to its taxing power.

The Popular Income Not a Fund.—We have been at some pains to see clearly the relation of the aggregate of popular incomes to their corresponding expenditure in consumable goods and services and in investment.[4] We noted that it is utterly misleading to think of the eighty-nine billions of national income, as it seems to have been in current dollars in 1926, as a fund to be drawn upon. We go entirely astray if we set up a tax rate of say 10 per cent on income for all purposes, and conclude that everywhere we can apply that rate and draw conclusions as to the resources of the state, county, or district with which we are dealing.

What Incomes?—It must be remembered that the figures for national income in which we have been interested represent the aggregate of all incomes from the lowest to the highest, including incomes which are less than zero. Of that whole mass, not all are tax-paying incomes. There is a reason in the nature of incomes and tax-paying ability why the lower incomes cannot be tax-paying and therefore can be no part of the sources of the tax revenue.

In the first place, incomes which are near the subsistence level, or below the level of adequate subsistence, cannot pay a tax without detriment to the health of the economic body politic

[4] See chap. iii, pp. 48–49, 53–57.

as a whole. Modern states recognize the principle in part when they set up personal exemptions in laying income taxes. Ancient states, and not a few modern states, have ignored the principle and have in consequence kept their peasantry, particularly, in a state of continuous fiscal exploitation. The result has invariably been ultimate disaster for all classes.

In the second place, accurate analysis of the process of tax-collecting always shows that there is a marginal income at which the cost of collection equals and below which the cost exceeds the revenue derived.

Hence we may say that the source of the revenue is not the entire popular income but that portion of it which consists of incomes which are definitely above the necessary subsistence cost in the communities in which they are domiciled.

Now, the decent subsistence level in a given community is determinable on scientific bases. The plea that it is indeterminate and dependent purely upon the intelligence and thrift and desires of the individual family will no longer hold. It is true that a given subsistence level scientifically determined might be more than a given family would use, because the family, in fact, would not live at a wholesome standard, and less than another family would expend, because the latter would not or could not spend wisely. It is further true that levels of subsistence vary greatly in accordance with the standard of living which the family desires to maintain and perhaps must maintain in the position which it holds. The fundamental issue, however, has nothing to do with any of these things. The subsistence level is the income necessary to purchase the food values, shelter, bodily protection, and services, at the prices obtaining in the community, which are objectively necessary to maintain health and productivity in decency. Several such studies have been made and published,[5] but of course no finding can be made which is good for the United States as a whole. It is necessarily a local problem for the reason

[5] See, for example, *Standards of Living*, Bureau of Applied Economics, Washington, Bulletin No. 7.

that living costs vary greatly. Nevertheless, it is well within the possibilities for each state to cause to be determined: (1) the aggregate of incomes within its several communities and in the state as a whole; (2) the subsistence income in each community; (3) the aggregate resources in terms of incomes at tax-paying level.

What the actual revenue from taxation of incomes can then be is, so far as the present writer knows, still an empirical matter. In general, it cannot exceed the point at which the tax base begins to be destroyed by depleting the capital necessary for the purposes of productive industrial and commercial enterprises. This capital comes not only from the investments of large income-earners but from the immense aggregate of individual savings.[6] It is perhaps worth while to consider the different income levels and the manner in which they contribute to the total of the revenue.

Different Income Levels.—In the first place, the incomes of wealthy individuals. The uncritical observer takes it for granted that here is an almost unlimited source. He sees about him on the streets of great cities, and at resorts, evidences of lavish expenditure. The press exploits the doings of the wealthy because their doings constitute news. What the observer forgets is that there are in excess of forty-five million income-earners in the nation and the rich are a small percentage of that number.

In levying the federal income tax at present, surtaxes begin at net incomes of $10,000. Presumably, Congress has looked upon that figure as marking off the well-to-do and wealthy income classes. In 1918[7] these were less than 0.7 per cent of all income-earners and their aggregate incomes were somewhat less than 12 per cent of the whole. Much of the same relationship probably obtains at the time of this writing.[8] It may be noted in

[6] See Mellon, *Taxation: The People's Business* (1924).

[7] See *Income in the United States*, p. 136.

[8] Procopovitch, *Economic Journal*, March, 1926, found that as popular income increases the proportion to the different income classes remains remarkably

passing that if all incomes of $10,000 and upward were confiscated entirely in any one year the revenue thus secured would fall considerably short of meeting the current obligations of government—federal, state, and local—and there would be little income for anybody in succeeding years.

The principle of progressive taxation has long been accepted and accordingly the well-to-do and wealthy should pay at progressively high and higher rates as they climb the income scales. Nevertheless, the limit is soon reached, for the incomes of the wealthy under American economy, in which there is no gentry system, go largely into productive enterprises which make incomes for all. Recent experience with the federal income tax is clear evidence in support of that principle. Altogether, then, the incomes of the wealthy are far from being an inexhaustible source. There are not enough of them. So long as the local district system of raising school revenue is in vogue, the situation is exaggerated, for very many local districts contain none at all.

It is wholly impossible to offer any figure as being an accurate statement for the average subsistence level for the United States as a whole, but for purposes of argument and illustration we may perhaps hit on $2,000. That figure would probably not be far from the truth for many of the larger cities, but it would be greatly too high for many thousands of smaller communities. In 1918, about 13 per cent of the incomes were between $2,000 and $10,000, and the corresponding aggregate incomes were about 28 per cent of the whole.

If we follow the line down to incomes between $1,000 and $2,000, we find the largest single group, amounting to about 47 per cent of the whole. Assuredly a large proportion of these incomes were outside of the taxable group, but on the other hand many of them must have been inside. The issue could be settled only by fact-finding from community to community.

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stable. Among the nations studied, however, England and the United States showed a marked tendency for the relative aggregate revenue in the highest income levels to decrease.

Now in order to raise *one billion* of tax money for all purposes in 1918, people in the $10,000-and-upward class without assistance from other classes would have had to pay out of income, on the average, something over $3,900 each. And bear in mind that the aggregate public expenditure has recently been in the vicinity of nine billion.

In order to raise the same amount, people in the $2,000–$10,000 class would have paid out of income about $200 each, on the average.

Continuing downward, those who were in the $1,000–$2,000 class could have raised the same amount by paying a mean sum of $56.

Thus it is clearly evident that even though we had a model *system of taxation,* which is very far indeed from the truth, and even though we should accurately adjust the levy of all taxes to the ability of every income class in every community throughout the nation, being restrained only by the peril of impairing the tax base, it is still true that the bulk of the tax receipts would have to come from the income classes below the highest, for the simple reason that there are so many more individuals to be counted. A corollary is the principle that increase in the number and aggregate amount of incomes between, let us say, $2,000 and $10,000 is a much more abundant source of revenue than the number and aggregate of incomes above $10,000. There is no mythical fund to be drawn upon by force of majority vote and prevalent desire.

IV

School Support Does Not Deplete Popular Income.—We are thus led back to a principle which we have already discussed.[9] Income always implies equivalent expenditure and consumption somewhere and ultimately. Hence a given sum devoted to the support of schools does not represent a withdrawal from the national income of an equivalent amount. It may represent

[9] See chap. iii, p. 49.

incomes which formerly appeared in some other form. It may even represent addition to the popular income. Such is the case when teachers, mechanics, and other workers and capital are put to work in schools when there would otherwise be unemployment. In common parlance "it improves business." Not only purchasing power is improved, but additions are made to tax-paying ability, unless the folly of exempting from taxation the capital and personal earnings thus created is committed.

The limit is found, not in quantity of income, but in the efficiency of the mechanisms by which the transfer of goods and services to the support of schools is made. In the first place, the productive capacity of society in terms of primary goods and services must be adequate to release workers to produce other goods than such commodities. In chapter ii, we have found reason to think that there is, either actually or potentially, such productive capacity. In the second place, there must be present a financial organization which is capable of preventing frequent disaster in the conduct of business enterprise, especially as disaster is related to defects in the monetary system and to the collapse of credit. We have reason to think that we have recently made considerable progress in that direction. In the third place, there must be control of the labor market not only in the interest of social well-being but also in the interest of financial stability. We have made progress in that direction through the restriction of immigration, through the absorption of labor hours in school attendance, through the reduction of the percentage of children in the total population, with no corresponding increase in the old-age group.[10]

The critical mechanism is, however, the process of taxation. The support of schools does not impair the national income, which as we have seen clearly is the source of the revenue, by taking from it, but the income may be impaired by utilizing the

[10] Between 1890 and 1920, a generation, there was a relative shrinkage of about 11 per cent in the age group five to seventeen, and a corresponding increase of but 2 per cent in the proportion of people above sixty-five.

tax-paying ability of the nation or of the community in such a manner and to such an extent as to reduce the incomes which would otherwise be earned. In practical effect, under our district system, the problem is fundamentally a community problem and not a state or national problem. That is to say, the mechanism operates within the local community and by consequence in the aggregate of all local communities. The difficulty of managing taxation is thus greatly exaggerated. What is true of schools is, of course, true of all tax-supported enterprises.

V

The Source of Revenue the School System Itself.—How can the sources of the revenue be increased, not relatively but absolutely? That is to say, How can we make it easier to raise revenue for the public-school service by the use of taxation?

The ready answer is usually, we must find new sources. But there never are any new sources, for there is but one source, namely, the popular income. New taxes can be laid, but they do not augment the sources. On the contrary, for the most part they merely increase a tax burden which is already admittedly heavy. A more scientific system of taxation may enlarge the revenue without enlarging the sources, by collecting from those who have previously escaped. It may relatively lower the sum of true taxes paid by substituting for taxation collection of fees in the field of value in exchange, as has been very successfully done with the gasoline tax. It may utilize the tax-paying ability of the community in such a manner as to minimize the damage to income-producing activities, but none of these either augments the sources or discovers new sources. The question will not down, and we return to the principles which have been before set forth.

It is obvious from the preceding analysis that the sources of revenue are not the entire national income nor the entire popular income in any state or local community, but that portion which is above subsistence level. Hence any influence which is tending to cut down the cost of subsistence or to increase the *number of in-*

comes above subsistence level and the *amount of income* above subsistence level is tending to increase the sources of the revenue in money. As we get farther and farther away from frontier economy and approach the conditions of a mature economic society, the only possible factor which operates in the required manner is intelligence and the power of self-control and self-direction, widely diffused among all classes. The only agency under conscious social control which is capable of generating such intelligence and administering the required discipline is the effective public-school system.

We have already dealt with the problem in its more general aspects.[11] It remains to point out the specific application in the present connection.

The remarkable achievement of the period beginning with the year 1922 has not been the almost incredible prosperity and diffusion of well-being among all classes, but the stabilization of prices.[12] The whole vast complex of improvements in industrial operations, in the relations of labor and capital, in commerce, in finance, reduced to lowest terms, means elimination of waste and increased production per man-hour. Thus wages and salaries have risen without any corresponding increase in the price of commodities. Subsistence cost has relatively been lowered and in some directions absolutely lowered. Thus, the tax-paying resources have been distinctly increased at the critical point, not primarily because there is more income with which to pay taxes, but rather because there are more people who can pay taxes. In turn, industrial and commercial leaders have been able to achieve the results indicated primarily because there has been enough alert and trained intelligence in the producing and purchasing and saving public to enable them to do so.

The release of labor-hours by machinery and by more economical organization of trade and industry must always mean, in itself considered, either chronic and universal or sporadic and oc-

[11] See chap. iii, pp. 62–64.

[12] See *Recent Economic Changes*, Vol. I, chap. ix.

casional unemployment. It has always been so, ever since the Industrial Revolution took place. Relief originally came partly by the opening of new occupations and the expansion of existing occupations, but more typically by the expansion of production and the opening of new markets. In the current revolution through which we are passing, which will perhaps sometime be called the third phase of the Industrial Revolution, production, or at least potential capacity for production, has reached the stage at which goods in abundance can be produced and marketed within the national economic area whenever there is sufficient purchasing power. That was not true, in 1850 let us say. The raw material could not be made available, there was insufficient capital and transportation service, sheer productive energy was limited. It is doubtful that it has ever been true anywhere before a very recent period. Whenever there are sufficient goods, there must always be potential value in exchange. The problem becomes one of finding new services, new occupational outlets, to provide purchasing power.

We have indeed opened many new occupations,[13] and we are still waiting to absorb over three million young workers in school. But new callings in the service of mankind *operating under free exchange* must be created, many more in their total personnel than those which must operate under taxation. In this respect, society can be compared with Crusoe on his virgin island, that ever present refuge of the social economist. Crusoe first struggles for the means of bare subsistence. That problem solved, he embarks on the never-ending task of improving his standard of living, continues until he succeeds in getting into trouble with his neighbors and finally escapes from reality in a providential ship. The parallel to the evolution of economic society is perfect until the arrival of the ship. Society's ship never arrives. There are always new services to be rendered and more of them and always will be until the arrival of the millennium.

The old occupations themselves are capable of indefinite

[13] See Klein, *Magazine of Business*, July, 1928.

refinement and higher earning power for the number employed. The industrial sons of the old pick-and-shovel men have become truck-drivers or garage mechanics. The old mill operative has in some cases become a semiprofessional who works with formulas, charts, and gauges and instruments of precision. The old hod-carrier has been succeeded by a man who operates a power hoist.

But new occupations in the modern world mean acquired intelligence and training, and in this complex the acquired general intelligence of the citizen of the modern state bulks large. Most trades, or even semiprofessions, have been so organized and simplified that the period of specific training required is short. Highly skilled labor of the craftsman type and wholly unskilled labor are alike rapidly disappearing. Limitations of the individual are limitations imposed by his general education, or the lack of it. Economists have often pointed out that the wage scale of people who compete with machines must always be low. No machine ever has, or ever will, exercise tact, judgment, self-direction, in brief, intelligence. Neither the labor union nor the philanthropist can ever take a short cut across this fundamental principle. On the other hand, effective general education always imparts intelligence of the acquired type and in so doing creates occupations in services which machines cannot render. Thus the common weal in civilization is promoted. Thus a larger national income is built up, and in turn a larger tax resource.

People of warm sympathies, and inclination to observe the social processes, frequently experience a sense of outrage that the incomes of enterprisers, experts, and managers should be so out of proportion to those of the rank and file. The reason is to be found in the fact that there are few of the former, and there are few because we have not yet arrived at the point at which individuals of actually adequate educational quality are being produced in sufficient numbers. There are not lacking signs, however, that we are drawing near such a period. The issue depends upon effective schools.

Further, there is always irritation at returns to capital, many

of which are apparently in the nature of "unearned increments." The reason is to be found, not so much in the fact that there is not enough capital, as in the fact that there are not enough capitalists. The situation is improving almost beyond belief, but the road is still a long one.[14] Again, more capitalists, until everybody is a capitalist, will arise not only out of broader general intelligence but out of specific understanding of the principles involved. One cannot learn how to save and manage money by studying foreign languages and the higher mathematics alone. The issue hangs upon the effective citizenship school.

Further, we are passing out of the period of individualism and into that of group economic democracy. An individual's place in a working world depends as much on his group as on himself, both for placement and for protection against exploitation. We have to organize and we do. But group democracy is no panacea. It works and achieves in proportion as it understands the world, and its understandings arise out of the acquired intelligence of its members.

Again, the problem of adjusting the primary subsistence level at a point which is in actuality consistent with productive capacity and family well-being, whether the level is lowered or not, is a matter of individual intelligence and self-control. Society may minister to the needs of the unfortunate, but not even charity can be utilized without intelligence. It is perhaps superfluous to remark that by intelligence is meant simply those elementary learnings through which the individual comes to understand the values of commodities which enter into subsistence and those which enable him to administer and control his economic life—arithmetic and bookkeeping, for instance.

We return to the fundamental thesis. In the last analysis, the sources of the revenue are in the efficiency of the school. Adequacy of the revenue is not a question of financial resources, in the ordinary connotation of that term. It is a question of the effi-

[14] For a discussion of the process at work, see Carver and Lester, *This Economic World,* chap. x.

cient working of a complex mechanism in which school efficiency, the economic structure of society, intelligent operation of the revenue system and of the expenditure of public money of all sorts are all parts. Thus teaching and the management of the school are at bottom economic functions.

We have tried to see how the structure of modern American economic society, and especially its financial organization, is related to the problem. Out of this last-named inquiry seem to emerge two principles of fundamental importance, to each of which we have repeatedly recurred.

First, there has come to be in this age of machine production and highly efficient commercial and industrial organization productive capacity enough to release childhood and youth for prolonged schooling—a matter of the capture of energy for which we must thank applied science.

Second, the financial organization of society is such that the withdrawal of childhood and youth from the labor market operates, or tends to operate, to induce not only an increase in popular income but a progressive relative increase of the lower income classes, and this process in turn creates purchasing power.

The implication is that there is in principle no limit to the revenue of a school system, operating within a self-contained economic region like the United States, if only that school system can in actual effect be economically productive up to the extent of the goods and services which it consumes.

Conversely, the implication also is that no school system which is in actual effect simply a custodial agency for a new leisure class can permanently be supported, at least by taxation, even though in its initial stages it is domiciled in a prosperous nation. Such a system not only impairs the foundations of the revenue through its misuse of taxation, but it fails to regenerate economic and civil society. In other words, it fails to realize the original function of the School in societal evolution and control.

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CHAPTER VII

TAXATION

I intend to bring together at this point in our discussion certain elementary principles of taxation, chiefly because it is impossible to understand the school revenue, and especially the chapters which follow, unless we have in mind some adequate grasp of taxation and of the methods by which it is applied.

A Payment for Service Rendered to Society.—Nobody is fond of paying taxes. We accept the situation as part of the day's work when we pay the provision-dealer, or the clothier, or the landlord; and payment for luxuries is even a joyous experience. But we proceed with halting steps to the tax-collector's office, glancing down every alley in a sort of automatic search for "dodges." Hence there are few subjects of discussion in which emotional detachment is more difficult, and few in which cocksure schemes for reform are more numerous—most of them designed to make somebody else pay the bill.

The reason is not far to seek. We are in the grasp of an ideology which has come down to us from other days, when taxation was a matter of grants to the king and often a matter of grinding oppression at the hands of the tax farmer. The king, on the other hand, often looked upon taxes as money due him from his loyal subjects without regard to obligations on his part. Some of us have racial memories of days when the pillow was snatched from under the head of the young mother and next year's seed corn was confiscated to satisfy the collector. It is now, however, some years since the last of the Stuarts ceased to be interested in taxes. The Bourbons and the Hapsburgs, the Hohenzollerns and the Romanoffs have gone where the wicked cease from troubling; but we are not really aware of the fact. The delusion is kept up by city governments which fondly re-enact the humors of old

kings. Something of the old aroma hangs about even the legal definitions of taxes and taxation.

Part of this atavistic ideology is the widespread conviction that the State is capable of creating revenue out of thin air, that there is some magic in government which enables all of us to fall into the arms of the State whenever economic problems become too perplexing to be met. "The city ought to pay the bill," "the state should provide this," "Uncle Sam can afford it" are easy solutions in which we all take refuge more often than we think.

In truth, however, taxation proper with us is exaction of payment for holding society together and making community life not only convenient but possible. Whenever government undertakes an enterprise, the citizens meet the bills and there is no other way. Evasion of taxes is on a par with refusal to pay the grocer. The use of government revenue for anything else than honest and efficient public service is not different from any other kind of breach of faith.

I

KINDS OF TAXES.—We are apt to think that a method of taxation is a source of revenue, so that if we add a new kind of tax, like an income tax, or a business tax, or an inheritance tax, we have tapped a new and hitherto untouched source of supply. We have abundantly seen that there is but one source of revenue, namely, the current earnings of the people and the money into which the people's possessions can be converted. There are various different methods of levying upon the popular earnings, and these different methods behave very differently in their economic effect. It will perhaps be worth while to review the principal forms of taxation.

1. *The property tax.*—The most common form of taxation in the United States is a contribution levied upon individuals and corporations in proportion to the estimated value of their property holdings. If the property is in the form of land and the betterments thereon, the tax is called a *real property tax,* or a tax on *realty.* If the property is in the form of personal belongings in

the household, of equipment and apparatus on the farm or in the factory, of goods in trade, money on hand or in the bank, of stocks, bonds, mortgage notes, or the like, it is called a *personal property tax,* or a tax on *personalty.*

The property tax, as we use it, is now peculiarly an American institution, a survival from our frontier period. It is of interest to school people, partly because nearly the entire revenue of the school systems of our forty-eight commonwealths is collected by means of property taxation, and partly because it is nearly the world's worst tax and the source of a large part of our fiscal troubles.

2. *Income tax.*—An income tax is a contribution levied upon individuals or corporations in proportion to their income, and of course it is paid out of income.

We are interested in the income tax, in the first place, because taxationists are agreed that it is the most scientific method of taxation, and, second, because it promises to do more than any other one single factor could do to make the problem of the school revenue a soluble problem.

Property and income taxes are revenue taxes par excellence. Many other forms have regulatory as well as revenue features or else they are in no proper sense taxes at all, save as all forced contributions are taxes.

3. *Excises.*—Excises in origin are taxes laid upon commodities in trade, but the term has tended to broaden until it covers not only goods but services. We were familiar with excises in war time in the form of additions to the price of toilet articles and the like, and stamps attached to legal documents. The gasoline tax is in form an excise.

We have only an academic interest in excises, for there is not likely ever to be a large school revenue from them. Of all taxes they are the most easily passed on to the consumer, and not only is the incidence likely to be on people who can least afford to pay, but they are apt to constitute a sad interference with business. Once a favorite form of taxation, with the evolution of industrial

society they have become less and less appealing, either to legislators or to scientific taxationists.

4. *Severance tax.*—Akin to excises is a tax on natural resources removed from the land and sometimes called in America a "severance" tax. It has come to be of great interest to school people, largely because of their faith in what it has done for schools in Louisiana. In social justification, it is not unlike what have been called in England "windfall" taxes. The theory is, first, that the resources uncovered, notably oil, are in the nature of unearned increments; and, second, that the State ought to recover in part on the depletion of its resources. It should be remembered that there has been respectable opinion to the effect that the State should never have alienated such resources and that they are not properly covered by the institution of private property.

As a practical feature of the fiscal system of an American state, such taxes are one of the means of minimizing the effect of the escape of taxables to other jurisdictions. The taxable incomes of those who profit from mines and oil wells are likely to be beyond the reach of the tax collectors of the state in which the wells or mines are situated.

5. *Customs duties.*—Practically all nations lay taxes upon either exports or imports or both. We are forbidden by the Constitution to tax exports, but our protective tariff policy has always made customs an important source of revenue. Obviously students of the school money have no practical interest in this method of collecting revenue.

6. *Licenses.*—A license is not, strictly speaking, a tax at all, despite the fact that it is a compulsory contribution. It is rather a payment authorized to be exacted for the privilege of conducting a certain kind of business or holding a certain kind of property. For example, dealers in inflammable fluids and explosives, pawnbrokers—and formerly liquor-dealers—commonly pay licenses. A license is not in principle primarily a means of collecting revenue, although a good deal of revenue is sometimes asso-

ciated with licensing systems, but rather a means of controlling certain kinds of transactions and property.

An original license purpose sometimes passes into an entirely different objective. The best example perhaps is the charge made for license plates on automobiles. Originally intended to be a means of registering and controlling automobile-owners, the license has now become practically a charge for the use of highways.

School people are not interested in licenses as a major source of revenue, despite the fateful association between the "dog tax" and schools.

7. *Corporation tax.*—Taxes laid upon corporations have come to be a large element in the revenues of many of the states, and people are prone to look upon such taxes as belonging to a kind of taxation distinct in itself. There are in force a somewhat bewildering array of corporation taxes, but those which are peculiar to corporations are, in general, franchise taxes, excises upon the amount of business done, and licenses. A franchise tax is an attempt to reach values which a corporation possesses over and above its real estate and personalty. These values are real and they arise from the corporate character itself, from its limited liability quality and sometimes from the fact that the corporation is endowed with the privilege of eminent domain. The process of estimating franchise value is, however, uncertain, and seemingly the different states have found difficulty in defining just what they mean by franchise values. Excises applied to corporations are not essentially different from excises applied elsewhere. The corporation tax is sometimes in the form of a license, regardless of any regulatory purpose. Scientific taxation of corporations finds little occasion for any other imposts than taxes laid upon the franchises, especially of public service corporations, upon the real estate and personalty, and upon net undistributed income.

As students of the school money, we are greatly interested in corporation taxes for two reasons. In the first place, they yield a

revenue which is an acceptable basis for equalization funds, provided the problem of equalization is attacked through the instrumentality of a distributive fund,[1] while the revenue derived from general property taxes levied by the state and allocated to the different counties or municipalities for assessment and collection is a wrong basis for such funds. In the second place, corporation taxes levied by the several states are almost the only means of compelling corporate business located in a given state to pay for the public burdens which it creates. Bear in mind that the individual incomes which originate in the earnings of such companies may in large part be domiciled in other states or even in foreign countries.

8. *Capitation tax.*—Capitation taxes are ungraduated levies upon the individual—so much per head or poll of the population or voting citizenry. Such taxes are nearly obsolete in practice and altogether obsolete in principle. There is some tendency, in income taxation, to assess a small uniform tax on all citizens whose incomes are below the personal exemption limit, but this tax is apparently imposed more for the sake of securing data on the low personal incomes than for revenue purposes. We are not likely ever to be interested in capitation taxes as a method of collecting the school revenue.

9. *Inheritance tax.*—The federal government and most of the states lay taxes either on the estates themselves or on the several inheritances when estates pass from decedents to heirs. A vast amount of social theorizing has centered about the inheritance tax, but with that we have nothing to do. It is obviously a tax which has in it the element of popularity, since very few people expect ever to pay such a tax. That it is in the long run a good tax, from the fiscal standpoint pure and simple, is open to doubt.

The revenue from inheritance taxes is in its nature irregular, at least in most of the states, and it is probably not good policy to turn it into current operating account. It should rather be de-

[1] See, however, chaps. viii and ix as wholes.

voted to purposes which are not current obligations. If inheritance taxation should turn out to be permanent state policy, the revenue therefrom would apparently be an excellent source from which to replace our permanent school funds.

10. *Assessments.*—A form of compulsory payment is what is known as an *assessment* against property. The term is used in another sense in the process of levying a property tax, but here it means an occasional, not recurring, levy made for such purposes as building or repairing streets, installing sewers, erecting drainage works, and the like. Despite the fact that it is a compulsory contribution to the public purse, the assessment is not properly a tax. In theory, it enhances the value of the property against which it is levied. It is, in effect, a compulsory investment of capital.

11. *Public service charges.*—A feature of the public revenue which is more or less taken for granted, and seldom seriously discussed in works on taxation, is that which appears in the rates or taxes charged or levied for specific service rendered. Technically it is a *fee*. We have long been familiar with rates and fees as postage or water rates which nobody ever thinks of calling taxes. We know them as fees for the registration of deeds, mortgages, and other legal documents. As we have seen, the automobile license has come to operate as a public-service charge and the gasoline excise is going through the same process of evolution.

In the case of the automobile taxes, it is apparent that the use of the highway which the automobile requires is in principle exactly as much a part of the cost of operating a car as is the consumption of fuel and oil and wear and tear on the vehicle itself. A tax-supported automobile highway is as much a case of pure communism as would be a tax-supported railway. Even the most ardent advocates of government-owned railways would hardly urge that the public be given free freight and passenger service. On the other hand, tax-supported schools, courts, military defense, and police protection are merely the instruments of civilized life. One cannot pay for n units of citizenship or justice or protection; but he can pay for the use of 100 miles of highway

on a particular day and a particular journey, and the new taxes afford an approximate measure of such use.

The principle of the public-service charge is probably capable of contributing largely to the solution of revenue problems. While it is a tax in the sense that it is a compulsory contribution, it is purely contingent. It has none of the awkward characteristics of taxation proper. There can be no question of drying up the source, since if the service is not rendered, the charge is not paid. Shifting is deliberate and controlled. The excise is readily adjusted to traffic requirements, that is, to the support of the service for which it is collected. *Wherever any such relief of taxation proper, especially property and income taxation, can be achieved, a step is taken in the direction of enabling not only schools but other tax-supported services to utilize the undoubtedly adequate general economic foundation which has been discussed in chapters ii and iii.*

If the highways alone can be made self-supporting—and the automobile has made that possible—the heaviest tax burden which local government has had to bear, save the schools themselves, will have been lifted.

A considerable part of the tax support of schools and universities themselves can on the same principle be lifted. Reference is made, of course, to those school and university functions discussed in chapter v which yield value in exchange rather than, or as well as, value in use.

The principle of the public-service charge supplies us with good criteria for the rational settlement of the general property tax. The latter should be retained in the main chiefly for those public services which are, in their nature, associated with the maintenance of property rather than the protection and welfare of persons.

In some states, the cost of installation and maintenance of sewers is assessed on abutting real estate. Evidently, in a civilized community, investment in sewers is as much a part of the capital requirements of buildings as is the heating plant.

Drainage districts in which the investment in canals becomes

part of the land value is in some parts of the country a familiar example of the same principle.

In urban communities, the upkeep of fire departments is in its nature as truly a maintenance cost on buildings as is insurance, and the cost is properly a public-service charge to be assessed on buildings, perhaps in proportion to fire risk.

In general, let us note that we are thinking out this aspect of taxation in terms of the nature of the function which the tax supports, and not in terms of a priori conceptions of taxation in general. Wherever the public service charge can be applied, in accordance with this method of analysis, we convert that much of the public business into the economic system where it belongs, namely, value in exchange. We reserve the tax mechanism for those public services which must in their nature operate in the field of value in use. We follow the pathway of economic democracy and refuse to dally with communism.

There are various other taxes—in fact, at times taxation has been applied on the principles of the justly celebrated Donnybrook Fair—but the foregoing are the principal methods of taxation.

II

The Effects of Taxation.—It is a good deal more important to understand the effect of taxation than to know what different taxes are. Every tax laid has economic consequences, which operate quite independently of the intention of the taxing officials and of the people who authorize and vote the tax. Such consequences are more or less under control when the economic mechanisms at work are understood. Unintelligent taxation is bad taxation. It has repeatedly wrecked the whole economic structure. It has been the origin of bloody social revolutions. It has been the occasion of the disruption of states. We owe our separate existence as a nation in part to a quarrel over taxation, which originated in ignorance of elementary principles. While laws relating to taxation should invariably be written under the advice of competent taxationists, it is extremely important that

all intelligent citizens, and especially those who are responsible for public schools, should understand certain elementary features of the behavior of taxes.

Shifting, Incidence, Diffusion.—Taxes are not necessarily paid by the person to whom the bill is rendered and who completes the cash transaction by which the claim is satisfied. In other words, the taxpayer is not always the tax-bearer. All taxes are *shifted* or *thrown off* or *passed on* whenever the taxpayer can do so. That is to say, the taxpayer endeavors to add his tax to the price which he charges for goods or services, or to subtract it from the price which he himself pays for that which he ultimately sells. Thus, the consumer, or even conceivably the producer, is made to pay the tax. The person or persons upon whom the tax actually falls, by whom the tax is in reality paid, is the point of *incidence* of the tax. More often than not the tax is thrown off by the taxpayer but is not in any true sense borne by anybody in particular. It is rather taken up by a process of adjustment in the general mechanism of distribution. In that case, incidence is *diffused*. At one time it was held that all taxes whatsoever are diffused and eventually become rightly distributed in accordance with economic law. This optimistic theory was known as the *theory of equal diffusion*. Taxes in some cases can be held to be diffused without either invoking the theory just named or suggesting that diffusion is necessarily right or the mark of a good tax.

The process of shifting and incidence is at the heart of taxation, and probably more pages have been written on the subject during the past two hundred and fifty years than on all the rest of the subject put together. The subject is fascinating, and not a few taxationists carry their theories of shifting and incidence to fantastic lengths. A large part of the problem consists in definition, in what is meant, in what sense it is held that somebody else than the taxpayer bears the tax. The only hope of understanding the process is in a study of the economic mechanism at work. Obviously, we shall have space for only the most elementary consideration.

TAXES ASSOCIATED WITH BUSINESS.—The first case is that of taxes connected with the conduct of business, either manufacturing or merchandising. We are concerned chiefly with general property taxes on the property used in business. In general, the tax can be shifted or thrown off only when the amount of the tax can be added to the price of commodities or services sold. People are prone to take it for granted that the manufacturer or the merchant engages in the simple arithmetical process of marking up his prices by enough to cover the tax. It is far from being so simple as that.

Vendors fix a price, or tend to do so, which in the presence of existing supply and demand will yield the largest return,[2] regardless of taxation. Under competitive conditions there is always a marginal vendor or producer, that is, a concern which is just making ends meet. The marginal business fixes the price of the line in which it deals. The tax is an element in the cost of doing business like any other element and the cost must be recovered if business is to continue. A given new tax or increase in taxation may be just enough to drive the marginal concern or concerns out of business, or at least out of the line in which they are marginers. In that case, the short-run critical competitor is eliminated and prices go up, perhaps to the extent of the tax, perhaps less, perhaps even beyond. If the tax does not reach a marginer, as is the case in many monopoly products in which there is no such margin, a new tax will not be shifted through increasing the price, for the reason that the price without the tax is presumably all that the market will stand. Or the marginal merchandiser or producer in the competitive market may conceivably reduce his other costs and continue in business. In that case, the price is not disturbed and there is no shifting.

As *between different lines*, the readiness with which taxes can be shifted depends very largely on elasticity of demand. Demand is said to be inelastic when a given commodity is a necessity, or

[2] For a recent discussion of the price-fixing mechanism, see Hayes, *Our Economic System* (1928), Vol. I, Part IV.

when people will make large sacrifices to secure it, or when there are no substitutes. In that case, the process of shifting is relatively easy, while in the opposite situation shifting is difficult.

On the other hand, when the supply is inelastic, that is to say, beyond the control of the vendor so that he must accept whatever he can get, shifting is difficult or impossible.

So it is easy to see that whether a tax on the instrumentalities or returns of business is thrown off or not, and how much, depends on circumstances. We cannot rightly say offhand that the consumer pays the tax. In the case of shifting which has just been described, what is it right to say about the consumer? In what sense does somebody else than the dealer pay the tax?

"The consumer" is much like the "average child" or the "common man," a useful figment for the writers of books but nobody whom one can exactly invite to dinner. Rising prices, whether they are caused by taxation or by other influences, in an economically self-contained region like the United States, normally have to result in rising incomes. Changes in taxation as applied to business force readjustment all around the circle. When a given tax becomes an old and familiar one, the situation tends to be much like what the diffusionists claimed: The incidence is upon no particular person or class. What is vastly more important than incidence is the burden of misery and wretchedness which the adjustment process causes. "Interference with business" is a serious social matter.

Further, in the case of taxes which in their nature become part of the cost of production or merchandising, the tax is thrown off by the vendor in relatively small additions to the selling price of units of the commodity which is sold. Thus a property tax on the realty and personalty used in business is paid as a lump sum and distributed as additions to the price per pound or per yard or per piece of many thousands or even millions of the lots sold. The "consumer" does pay the tax, but the real meaning is that the consuming public pays it. In another sense than that stated in the last paragraph incidence is diffused. The situation is fun-

damentally different from that discussed below in which the tax is laid *upon each unit* of the community sold.

On the other hand, the vendor who succeeds in throwing off the taxes which are associated with his business is nevertheless also a consumer and a payer of taxes which are not associated with his business.

Does A or B or John Doe or Richard Roe pay the tax? The answer is that he pays it in no other sense than he pays the cost of raw materials, labor, and what not which enter into the production and merchandising of the goods which he buys.

Excises.—On the other hand, certain excises especially are either specific or ad valorem taxes on commodities sold over the counter or on services rendered. They are attached to each unit sold, instead of being distributed over all units sold, as is the case of property taxes on the shop or factory. They are not a part of the cost of production or merchandising. They tend to move the price levels upward by the amount of the tax. The purchaser does pay the tax in a specific and definite sense, and it is intended that he shall do so. The process is indirect taxation. Nevertheless, such an excise can no more escape the laws which govern price-fixing than any other tax, and in the end circumstances will determine whether the excise operates as true indirect taxation or merely becomes one of the elements in price-fixing.

Domestic Rent.—The great refuge of those who believe in the inescapable tendency of all taxes to become indirect taxes is domestic rent in the cities. Here, if nowhere else, the man who owns no property pays property taxes just the same. Again, the issue depends on circumstances and especially on what is meant.

Theoretical taxation distinguishes carefully between taxes on land and taxes on the betterments, such as dwelling-houses. For all practical purposes, however, the distinction is academic, especially in modern America, for the rent obtainable depends chiefly on location, that is, on land, and the quality of the house as house tends to be fitted to the desirability of the location.

The rent is determined by supply and demand. The land-

lord exacts whatever the traffic will bear. If tenements are scarce, the rent will be high, regardless of tax, and, if they are plentiful, the rent will be low, regardless of tax. Land and the house upon it differ from commodities and services in trade in that neither the land nor the house is movable. On a falling market, the landlord would prefer any rent however small to none at all. There is no marginer, in the industrial and commercial sense, who can retire and leave the field to his competitors.

In a growing community, however, taxation does have an effect on rent, since taxes tend to influence the rate at which both land and houses will be made available, and hence the increase in supply. But here as elsewhere there is a wide difference between holding that the city taxes affect the supply of tenements and hence the rent levels, and holding that a given renter pays his landlord's tax. If A, a renter, and B, his landlord, live in a growing city and B's tax is increased $100, can B add $100 to the year's rent with polite regrets and explanations? Not unless A can find no other house, and in that case B will already have added all that A can pay. If A is too impecunious to suit B's avarice, the latter will have substituted C. Nobody pays his landlord's tax in the same sense in which he pays an excise of 10 per cent on club dues or one of 3 cents on a gallon of gasoline.[3]

The Case of the Farmer.—In most cases, taxes on business or the instrumentalities of business are undoubtedly liquidated in the adjustment of selling price to costs of production. Is the same thing true of the farmer, who is also a producer? In the cases of farmers who grow the great staple crops, the answer is no. Their prices are not fixed under local competitive conditions but by conditions in the world-market. The farmer pays his whole tax out of net income if he has any. Very frequently, indeed, he must pay out of his net cash receipts, which include not only net income in the accountant's sense but also the reward of his own labor and that of his family.

[3] For a full discussion, see Seligman, *Shifting and Incidence of Taxation* (5th edition, revised, 1927), chap. iii.

The Western farmer, the price of whose wheat is fixed in Liverpool by the conditions of production in countries thousands of miles distant, will not get a whit more for his products if his taxes are doubled. He, and he alone, must bear the burden of the tax.[4]

Taxation Essentially a Personal and Individual Affair.—The revenue collected for the support of government, including schools, as distinguished from servicing charges of one sort or another, is in its nature a personal matter. It is at bottom payment for the privilege of living and prospering in civilized society. The payment of taxes is therefore an obligation which the individual owes as a person and not as an owner of property. Neither property nor business is in pursuit of life, liberty or happiness. The maintenance of property or the conduct of business, it is true, may engender certain charges for essential services, which can be administered only by the State and for which the State must exact payment, but the civic obligation attached is a personal matter. Obligation for the payment of taxes necessarily rests upon all members of society, rich and poor alike.

If students of taxation would keep in mind this principle of the purely personal nature of taxes levied for the support of government as such, they would be saved a world of confusion and taxation itself would become a simpler matter. Much perplexity over double taxation would disappear. It would be seen that taxes paid by a corporation on undivided earnings are not necessarily the same as, or a part of, the taxes paid by the security-holders on the earnings which appear as dividends. Trouble over the alleged capitalization of taxes in land values would largely disappear, and the relief of farmers from oppressive land taxes would seem less like a free gift.

Progressive Taxation.—Sooner or later—usually later—we find that we are obliged in large measure to exempt citizens who are in receipt of low incomes from contributing to the support of government what would otherwise be their just portion. Thus arises the principle of *progressivity*. The necessitous man

[4] Seligman, *op. cit.*, p. 266.

pays no taxes at all. The man of moderate means pays a low tax. As individuals are found in higher and higher income classes, their taxes increase, not in arithmetical ratio, but in more than arithmetical ratio. If A's income is twice as much as B's, his tax bill should be not twice as much but more than twice as much. A sound reason for the application of this principle goes beyond charity and even justice to the poor, and is found in the highly practical consideration that any other course operates in the end to reduce revenue as well as to restrict the development of economic democracy. It is vastly more important that a given individual and a given group should come to be able to pay taxes than that they should pay any taxes at all this year. Fiscal exploitation begins when taxes are exacted from people who, as a matter of fact, are not able to pay. Nations that indulge in fiscal exploitation find themselves in the end in not only fiscal collapse but general economic collapse. The most striking historical example is that of the *ancien régime* in France. Some European nations in more recent times have failed to heed the warnings of history on this issue, and they have paid the penalty. Fiscal exploitation has been oriental policy from time immemorial. American taxation in its intention avoids this vice. The peculiar behavior of our general property tax, however, inevitably tends toward *regressivity,* that is, a condition in which the lower income levels sacrifice more and more rather than less and less, as the scale is descended, and the American farmer has been increasingly the victim of fiscal exploitation.

Regressivity, as well as other maladies in our tax system, is traceable in part to the infatuation of legislators and voters for the word "proportional." A proportional tax is one which is levied at the same rate on all incomes and values. There is a certain verbal flavor of justice and democracy about the word which makes it fatally attractive to the unsophisticated. It has been a feature of our state constitutions and has therefore long been a stumbling-block to intelligent reforms. It usually does most injustice to the very people who worship the notion most devoted-

ly. Proportional taxation is not taxation according to ability, for ability is measured by equality of sacrifice rather than by equality in the rates paid. Ten per cent on $5,000 is manifestly a greater sacrifice than 10 per cent on $50,000.

Destruction of the Tax Base.—Every true tax, with the unimportant exception of the capitation tax, has a tendency to impair and ultimately destroy the values upon which it is based. This is perhaps the center about which the whole matter of the behavior of taxes revolves. The principle was, in effect, expressed in Adam Smith's fourth maxim, "Every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State." What is meant can best be seen through concrete illustration.

The influence of bad taxation of timber land in hastening deforestation and retarding the adoption of conservative methods of cutting is such a case. Timber is, of course, a slow-growing crop. At best, a stand is a somewhat risky investment, which at maturity yields a moderate return on the original outlay in land, or in land and seedlings. Meantime, the land is assessed as is farm land in the neighborhood, or at least on the same principles, since the state constitution very probably requires equal and proportional assessment of all property. An annual tax is levied and collected. The prudent owner is therefore forced to see that, long before the proper time for cutting, taxes will have "eaten up" the value of the timber. He therefore realizes what he can from cutting immature trees and abandons the land. The latter has then no value, save in instances in which it can be cleared for agricultural purposes. Under a more intelligent system of taxation, it would pay to keep land which is good for nothing else permanently growing timber and thus a source of revenue to be drawn from the ultimate sale of forest products.

The most conspicuous instance of widespread destruction of the base by excessive state, county, and local taxes, but chiefly the latter, is that of agricultural lands. The farmer's chief source of income is the property on which he is taxed. The city dweller,

save in the case of landlords, very rarely draws his income from his taxable property or at least from property which is, in fact, taxed. Hence it comes about that even a moderate local property tax levied against the land, buildings, live stock, and equipment tends to appropriate a much larger percentage of the farmer's annual net income than would be taken from the city man's income under the same assessment ratio and tax rate. It has recently been shown that state and local taxation for a four-year period took in the aggregate about 30 per cent of the net income derived from farms.[5] It is true that the same article shows that almost as large percentages of the net income of various public utilities were taken, but the absolute balance of the income in these industries untouched by taxation would be much larger than in the case of the farmer. The farmer, for example, might well have a net income of $1,000, of which $300 would be taken in taxes, leaving a balance of $700. The public utility would be more likely to pay $30,000 out of $100,000, leaving a balance of $70,000. The example illustrates regressivity. The equivalent of a 100 per cent local income tax laid upon the farmer is not altogether uncommon, and of course a much lower rate is sufficient to cause mischief.[6]

The result is that the farmer lets his land go to a tenant, sells it for what it will bring, or allows it to go for taxes. In any of these cases, the tax base is either greatly impaired or altogether destroyed. An abandoned farm pays no taxes. Professor R. T. Ely once commented on the situation thus:

> Taxes on lands are steadily and rapidly approximating the annual value of farm lands; and in a period varying from state to state, but in most of the states in a relatively short period—a period so short that some of us may live to see it, if the movement continues unchecked—the taxes will absorb farm values, the farmer's land will be confiscated by the state and our farmers will become virtual tenants of the state.[7]

[5] W. H. Bridges, in *American Bankers' Association Journal,* January, 1928.

[6] Reeves, *The Political Unit of School Finance in Illinois,* chap. x.

[7] Richard T. Ely, *The Tri-State Development Congress Proceedings,* Duluth, January, 1924. See also Davenport, "Exhausted Farms and Exhausting Taxation,"

Another striking case of destruction of the base by excessive taxation is that of the tax on intangibles, in general interest-bearing or dividend-producing securities. Such property commonly produces an interest return, or its equivalent, on market value of the property, at say from 4 per cent to 6 per cent when the risk element is small. Now, if such property is taxed at the same rate as real estate, and the laws of many states require that it shall be, a large fraction of the income will be confiscated—very commonly as much as 30 per cent and not infrequently the entire income. Hence owners of such property become expert tax-dodgers. Evasion is of necessity sanctioned or ignored by tax officials. If it were not so, savings would not be invested in industrial enterprises nor loaned, save at rates sufficient to cover both interest and the tax. The practical outcome is that what is one of the largest sources of individual income, and therefore one of the most valuable tax bases, is destroyed as a source of revenue by the tax itself. A few of the more enlightened states have abolished taxes on intangibles altogether and have substituted income taxes.

Even the individual income tax is capable of impairing, if not destroying, its base through excessive levies at either end of the scale of incomes.

If the personal exemption is too low, so that people who earn small incomes are exploited, personal productive efficiency is impaired. The result is that all incomes are more or less diminished and the tax base as a whole impaired.

On the other hand, if high incomes are excessively taxed, capital available for keeping the productive organism at work is depleted and tax-paying incomes of all grades are lowered. Something of this sort was evidently the effect of the federal income tax in the years following the war. After levies on the higher incomes were reduced, the revenue increased rather than dimin-

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Journal of Pol. Econ., June, 1909. Also, *Report of the North Carolina Tax Commission* (1928).

ished. The higher incomes were partially released for productive investment and the result was more and better employment of labor of all grades, more incomes from investments, better purchasing power, more incomes as well as greater incomes at the tax-paying levels.[8]

III

THE OBSOLETE GENERAL PROPERTY TAX.—The retention of the general property tax, in the form familiar to Americans, at least as the foundation of a general tax system, among a people distinguished for economic genius in the ordinary affairs of business, is an enigma. Tax officials for well over half a century have been condemning its injustice and stupidity, often in terms so vigorous as to be vitriolic. Professional students of taxation are unanimous in yielding it slight respect. The following oft-quoted characterization from Seligman will perhaps justify the statements made:

> *Practically,* the general property tax as actually administered is beyond all doubt one of the worst taxes known in the civilized world. Because of its attempt to tax intangible as well as tangible things, it sins against the cardinal rules of uniformity, of equality and of universality of taxation. It puts a premium on dishonesty and debauches the public conscience; it reduces deception to a system, and makes a science of knavery; it presses hardest on those least able to pay; it imposes double taxation on one man and grants entire immunity to the next. In short, the general property tax is so flagrantly inequitable, that its retention can be explained only through ignorance or inertia. It is the cause of such crying injustice that its alteration or its abolition must become the battle cry of every statesman and reformer.[9]

Nevertheless, the great bulk of the school revenue is derived from the general property tax, and it is quite out of the question to understand the whole complex fiscal system under which the school revenue is gathered, apart from an understanding of the processes of property taxation and of the circumstances under which the general property tax is levied and col-

[8] Robinson discusses the principle clearly in the handbook *Public Finance,* especially p. 59.

[9] *Essays in Taxation* (10th edition, revised, 1928), p. 62.

lected. Perhaps the best way to study this underlying problem, and to see why it is that such competent authority so unsparingly denounces the system, will be to consider in brief the process of valuation and levy, even though we find ourselves dealing with rather elementary matters.

VALUATION.—Since all property taxes are assumed to be levied on the individual or corporation in proportion to the value of property holdings, the first step is always to attempt to determine value. Now, in theory the value of property is what it will earn, or, in other words, the capitalization of its earnings.[10] So far as taxation is concerned, however, a great deal of taxable property has no earnings, and, further, this theory of value at best defines rather what a purchaser might wisely pay than what he would pay. Hence, the tax assessor attempts to estimate what the property would sell for—if a purchaser could be found—or at least that is what he is supposed to do. Let us take the realty first—as, indeed, the assessor probably would.

Real estate consists of land and the betterments thereon, that is, dwelling-houses, farm buildings, stores, office buildings, railway right-of-way, factories, and the like. Now, if there are frequent sales of a given type of real estate and the considerations are known, there is a factual basis for valuation. An efficient board of assessors, by keeping records of such transfers, can soon establish a very fair reference table of objective data. But this assumes that the non-speculative real estate market is much more active than it commonly is, even in large cities. At the best, there is no such market value for real estate as there is for staple commodities for which quotations appear daily. In small cities and in rural townships, transfers are so infrequent as to make any such tabulation unreliable. It is true that records of transfers are sometimes kept over a period of years and tabulations built up on the data thus secured. It is obvious, however, that such are illusory, for on any theory of value the latter must

[10] For the serious limitations of the theory, see Adams, *Science of Finance*, pp. 361–77.

change more or less from year to year. Hence valuation becomes a matter of essential guesswork, no matter how good a guess can be made, and no matter how much agreement there may be between several guesses.

The owner has the strongest motives for keeping the estimates down, for the valuation as well as the rate determines in the end what he must pay. Even at the best, the assessor, who is commonly a locally elected inexpert officer, dislikes to offend his neighbors and he has no personal inducement whatever to report high valuations. After all, he is only guessing, and he has no compelling reason for thinking that his guess is better than the owner's guess. At the worst, the assessor is corrupt and can be bribed directly or indirectly to report low valuations.

The practical result is that everywhere real estate is "put in" at greatly less than what it is really worth. That would cause no harm in itself, if all real estate were given the same *assessment ratio,* that is, assessed at the same percentage of its true value. But such is not the case and in the nature of things cannot be. The influential, the dominating, the corrupt tend to get low valuations while citizens of no particular political influence and those who do not know how to protect themselves get high valuations. Perhaps even worse, large property-owners, who would often be an incalculable resource in the direction of honest and efficient government, are kept quiet and uncomplaining while ignorant and vicious politicians indulge in orgies of extravagance and graft. Otherwise, the former could and would be heavily mulcted through excessive valuation. There are few assessment districts anywhere in the United States which will not show assessment ratios on different taxpayers ranging from less than 20 per cent to more than 100 per cent. Of course such inequalities never become apparent save when an occasional scientific survey is made, or a sporadic reform takes place.

It is true that state boards of equalization and state tax commissions have been set up and charged with the duty of bringing about equality in assessment ratios, or at least of checking un-

dervaluation. Such boards are often the first to acknowledge the futility of the task. At best, they can defeat in part inequalities of valuation as between tax districts, but in the attempt to render justice as between taxpayers they can do little more than revise local guesses with state guesses.

The viciousness of the general property tax as applied to real estate rests on this process of valuation. If the faults were sporadic and in the nature of remediable abuses, little would need to be said beyond exhortations to remedy the abuses; but the faults are inherent in the nature of the tax itself. The values assessed rarely have, or can have, any objective criterion whatever. Moreover, real estate, unlike intangibles, cannot be concealed. Hence the tax-dodger can have resource only to unfair methods of political influence, intimidation, and corruption. It would be hard to devise a system better calculated to bring out and cultivate all the latent meanness and sordidness of human nature. Only the Evil One himself could have devised a more hideous practical joke than to make the system from which the citizenship school derives its chief financial support the one instrumentality best calculated to destroy what the school is intended to create. The two principal factors responsible for corrupt local government in the United States are and have been the liquor traffic and the general property tax as applied to real estate.

Personalty.—Thus for the real property valuation. Now, let us turn to personalty. One would not go very far wrong if he defined personal property to be all a man's wealth other than his real estate. It includes all sorts of household furniture, machinery, and other equipment used in business and production, stock in trade, money in hand, credits, and especially stocks, bonds, mortgages, promissory notes, and the like. With the exception of stock in trade and intangibles, the valuation of all such property is much more of a guess than the valuation of real estate. Of course much of it has no money value. And, in truth, merely a perfunctory declaration is commonly sought by the assessors.

In the case of stock in trade and intangibles, however, the value in most cases is practically printed on the face. The merchant knows the prices at which he is selling goods and so do his customers. He knows what he paid for them. If the assessors do not know, they can find out. The value of many, if not most, securities can be determined by consulting the financial page of the daily newspaper. Strange as it may seem, it is this very quality of objectivity and certainty of value, as compared with the indefiniteness of value in real estate, that makes the mischief; for it forces the stupidity and unreason of the system into the focus of attention. The issue must be met and the only way it can be met is by evasion and practical destruction of the tax base itself.

The aggregate real estate in a city may easily be valued, indeed commonly is, at from 30 per cent to 40 per cent of its true value. The result is, of course, that the *tax rate* is from two and one-half to more than three times what it would be if it were based on true value. Suppose now that the necessities of a given tax district require a rate of 2 per cent on the true value. If the property—real estate, for the most part—is given an assessment ratio of 30 per cent, the computed tax rate will be 6.7 per cent. So far as real estate owners are concerned, it is immaterial whether their tax bills represent low assessment and high rate or the reverse. If, on the other hand, a 5 per cent mortgage bond in the denomination of $1,000 is listed, the value is obvious and objective; it is $1,000. Estimating or guessing is meaningless. The 6.7 per cent rate would confiscate considerably more than the interest earnings. Even if the assessment ratio of, let us say, 30 per cent has been fixed and agreed upon and is applied to intangibles as well as to real estate, the result is to take 40 per cent of the annual value of the bond. Hence the owner of the bond is forced to evade taxation if he can, honestly or otherwise.

On the other hand, a dealer who is taxed on the "fair cash value" of his stock in trade, as of a given date, is taxed on only a small part. Unless the dealer is too entirely unsophisticated to be a success in business, he will allow his stock to run down in an-

ticipation of the visit of the assessor. More than that, his stock as of a given date is only part of the stock on which the year's business is done.

In the end by a sort of tacit, but entirely natural, agreement the assessors either fail to find intangibles and stock in trade or else list whatever the owner is willing to confess. The ways to corruption and tyranny on the part of officials are wide open and tempting. Hence the situation which honest and competent tax officials denounce and taxationists scorn.

Under the industrial civilization of our day, the actual property holdings of individuals are far more in intangibles than in real estate, and yet there are few local inventories which do not purport to show the exact opposite. The result is that a very large number of persons escape state and local taxation altogether or else are taxed on a mere fragment of their ability. These so-called tax-dodgers are hardly to blame, nor are the assessors who allow them to escape.

Bad All Around.—Many writers on public finance are inclined to hold that there is still much to be said in favor of the general property tax as one of the elements in our general tax system, that it should be supplemented rather than condemned out of hand.

It may be freely granted that the State must have revenue and that until adjustments can be worked out the revenue from the general property tax cannot well be sacrificed, but that is far from admitting that even the real estate tax as we know it is sound in principle.

The analysis which we have worked out shows clearly that the real estate tax, in its civic implications, is as vicious as the tax on personalty, albeit in another way.

Further, the real estate tax, as one of the indicia of ability, is about as crude an instrument as anything could well be. Some real estate produces money income. Other real estate does not. The taxes laid upon some forms can promptly be shifted; those laid upon other forms can be thrown off only through a long read-

justment process, which is almost equivalent to no shifting at all; and those laid upon still others can neither be thrown off nor adjusted to. The farm stands at one end of the scale and the rich man's factory and his mansion at the other.

The tax, like the most productive excises, is regressive in its nature, bearing hardest on those who are least able to pay. To hold, as some American and English taxationists do hold, that we must have regard to the regressivity or progressivity of the tax system as a whole is like holding that a rickety machine is a good machine because it on the whole runs.

Interested citizens, including not a few teachers' associations, are aware of the situation and have exerted themselves, sometimes effectively, to bring about better things. They commonly encounter certain perplexities and become involved in certain fallacies. Three major instances are worth noting.

Probably the chief reason why the illogic of the personal property tax is so often acknowledged and its consequences complacently accepted is to be found in the widespread belief that the evaders pay an equivalent indirect tax through the shifting of the taxes laid upon other people, notably property taxes which are paid by merchants and landlords. The fallacy of the argument has already been exposed.

Again, it is urged that these people be caught through "taxation at the source," that is, through taxation of corporate business enterprises. There are good and sufficient reasons why business enterprises themselves should be taxed, either on their property, on their franchises, or on their net undistributed earnings; but a tax on a corporation is not at all equivalent to taxes on the holders of its securities. The corporation tax, like any other business tax, whether on the business itself, on its instrumentalities, or on its income, tends to become a part of the cost of doing business and as such tends to be diffused, though not necessarily shifted to its customers. Taxation may or may not result in smaller dividends than would otherwise be the case. Be that as it may, the stockholder's obligation to the State is person-

al in character and it cannot be discharged vicariously. Whether his income be larger or smaller, his obligation is measured by his actual income and is not discharged because the latter might have been larger than it really is. Of course it cannot even be pretended that bondholders, as distinguished from stockholders, are reached through corporation taxes.

A third error is sometimes cherished by teachers' organizations in their belief that, if the evaders of the personal property tax could be reached, large additions to the school revenue would be available. In some of the larger cities, this would probably be true, so far as city revenue alone is concerned. But if the problem of the citizenship school is seen to be a state problem, as it is, reaching the city tax-evaders would in most states simply result in lifting the destructive burdens which are now born by the rural population. It can hardly be doubted, however, that the economic justice thus awarded would result in steady increase in the number and amount of the taxable individual incomes.

IV

Income Taxation.—Taxationists are agreed that reform in our obsolete system should be in the direction of utilizing corporate and individual net incomes rather than property as the tax base, that is to say, that faculty or ability to pay should be measured in terms of income rather than in terms of the estimated value of property. As we have seen, taxes which recur annually are paid out of income, whatever the indicia may be.

We have repeatedly noted the large and increasing class of people whose property is largely in intangibles and who escape bearing their due part of the burdens of civilized society through evasion of the personal property tax. The same processes of social evolution which have created this class have also created a large salary-earning and wage-earning class which owns no property and contributes little or nothing to the public revenue. It is true that many individuals in this class have incomes which are below the level at which taxes ought to be levied, and the dema-

gogues would have us believe that all salary-earners and wage-earners are below this level—unless, to be sure, salaries are paid by successful business enterprises. As a matter of fact, a large proportion of both wages and salaries are well above subsistence level and their earners should bear their part of the public burdens. It is hard to see why a farmer whose income from wages, rent, interest, and profit is $1,000 should pay perhaps $300 in taxes while the city wage- or salary-earner who receives two or three times that income should pay no tax at all, even making due allowance for differences in living costs between the farmhouse and the city tenement.

Earlier Use of Income Taxes.—Extensive use was made of the principle of income taxation throughout our earlier national history, but, with the exception of one or two instances in which it was successfully applied by members of the Southern Confederacy, the earlier attempts were perfunctory and for the most part futile so far as revenue was concerned. The federal government used income taxation during the Civil War and again attempted to do so under the Act of 1894, only to have the legislation declared unconstitutional. As we all know, the result was the Sixteenth Amendment which became part of the Constitution in 1913.

The reasons for the failure of income taxation during the nineteenth century seemed chiefly to have been three:

In the first place, while the general property tax was never capable of being justly assessed, property was a much better measure of ability throughout the larger part of the nineteenth century than it has been for the past fifty years. Prior to the rapid growth of corporations and the period of intensive industrialization which led to the multiplication of urban communities and to the rapid increase of the proportion of the population living in the latter, the incomes of the people were much more generally derived from property holdings and especially from the land. Hence incomes tended to vary more nearly with property values, since the latter were in general functions of the for-

mer. There was for a long time no preponderating salary class or dividend-earning class. Further, the cost of government was relatively low. However bad in theory the general property tax might be, there was little pressing reason of a practical nature for a change.

Second, the income taxes of the period were subject to much the same kind of evasion which has been described as applying to intangible personal property. Valuation of incomes was by process of individual declaration of the income-earners, and it was expecting too much of frail human nature to rely on truthful declarations. Any method of checking up from accounts was condemned as "inquisitorial," and the accounts of those easy-going days would probably not have been particularly illuminating at best. In another respect, however, evasions were altogether different from evasions of the taxes on intangibles. The income taxes were never oppressive, and a given rate on income is a very different thing from even a much lower rate on the property value of securities. Income taxes were never sufficient to impair the tax base; taxes on intangibles are ordinarily enough to destroy the base when they are paid at the same rate as taxes on real estate.

Finally, the old income taxes were assessed and collected by the same inexpert, politically chosen officers who valued property and collected the property tax, and who still act in that capacity. To that extent, the taxes were a failure because they were incompetently administered.

The Modern Period.—The modern period begins with the Wisconsin Act of 1911 and the Federal Act of 1913. Since that period, steady and gratifying progress has been made, especially in the direction of individual income taxation.

As compared with the earlier period, the new income tax legislation tends to exhibit the following vitally important features:

It provides for securing information at the source as a check on personal and corporate declarations. All incomes originate somewhere, and nearly all which are at the taxable levels can be

ascertained from the books of business enterprises which pay salaries, dividends, and interest. There is a further check through the activities of the federal government in the collection of its own income tax.

In the best examples, it provides for competent, non-political administration through officers who are state appointees rather than locally elected.

On the other hand, it is cautious to the extent of meddling but little with the general property tax, though in some cases the states have accomplished a salutary rectification of the public conscience by abolishing the tax on intangibles. The result, of course, is that, while the city evaders are compelled to pay taxes as they never have before, fiscal exploitation of the farmers still goes on and the flagrant inequalities and injustices and corruptions connected with the valuation of real estate are left undisturbed.

On the whole, after more than half a century of agitation, it seems probable that the increasing intelligence of the American people will now rapidly cause the several states one after another to turn to scientific methods of taxation.

Contrasts.—The income tax is definite. An individual or a corporate income may sometimes be difficult to determine with precision as a problem in accountancy, but, whatever it is, it is actual and definite. Corruption may invade administration here as elsewhere in this imperfect world, but it must do so with its eyes wide open and with no illusions.

The general property tax rests on the process of valuation and practically on the valuation of real estate. Value is indefinite and in most cases not subject to calculation. Corruption is not only invited, but is itself so indefinite as hardly to impress itself as an ethical issue.

The income tax makes possible adherence to the cardinal principle of equality. A given net income is the same for one person as another, at least in the same community. A given system

of rates collects in proportion to ability as precisely as is perhaps humanly possible.

The general property tax inevitably ministers to gross inequality, not because of maladministration but because of the nature of the machinery itself. A man who earns a meager living from property may easily be taxed at a rate on his ability which would be deemed appropriate to a millionaire, while another of many times the ability pays no tax at all because he holds no property.

The income tax is positive in its source and calculable in its economic effect. Taxes are paid out of income, and to use income itself as the index of ability to pay is to set up a precise relationship between ability and source. The individual income tax is virtually incapable of being shifted.

The general property tax uses an index which is only remotely and occasionally related to ability. Its economic effects are non-calculable, and it forces a continuous adjustment process in commerce and industry, the consequences of which are frequently disastrous.

Any tax tends to destroy its base, but the income tax is of all taxes the least likely to have this effect. Further, excessive taxation of incomes quickly reveals itself, because the taxpayer is of necessity most sensitive to this form of taxation.

The effect of the property tax on its base is as varied as the forms which property takes. Some forms of property values will stand high rates on true value, while others begin to disappear in the presence of any property tax at all. The process of destruction is obscure and the taxpayer is more often bewildered by his financial disasters than aware of their true cause.

The income tax is easily made a progressive tax, and it cannot be made regressive except by deliberate intention.

The general property tax can with difficulty be made progressive, and it is exceedingly apt to become regressive without the knowledge of legislators and taxing bodies.

The income tax is evaded, on any large scale, only when the administration is incompetent or negligent or corrupt.

By far the largest part of the general property tax is evaded of necessity. One might say with considerable truth that only incompetent tax officials would prevent evasion.

V

The Place of the Property Tax in a Sound System.—Many taxationists, after setting lucidly forth the principles involved, seem singularly reluctant to give the general property tax a decent burial. As if it were a forlorn person bereft of respectable friends, they would hand over the object which their attacks have made a corpse to fester in the fiscal systems of the municipalities, which it corrupted in its lifetime.

If the tax is utterly wrong in principle, and it is, it is as wrong for municipalities as for states. Nay, far worse, for its most vicious effects are those which appear only in chartered cities and rural townships. Our local communities are even more critically in need of the application of sound principles of taxation than are either the states or the United States.

Nevertheless, it is undoubtedly true that certain kinds of property generate obligations to the municipality wherein they are situated which can be discharged only through the use of the taxing power, obligations which inhere in the property and not in the person of its owner. Assessments for sewers and in part for street construction are in reality part of the capital invested in land betterments. The same principle obtains in the case of rural drainage works and, possibly, in that of irrigation projects. A part, if not all, of the watch and ward function of the city police, as distinguished from the detection and arrest of criminals, is properly a charge to be assessed against property; as is the whole cost of the fire department. Again, the vehicular tax found in some cities is a crude but appropriate method of administering a public-service charge for the use of streets. Indeed, as Professor Seligman points out, the municipality is "the chief home of revenues predicated on the principle of benefit" (the public-service charge is an application of the benefit principle), "while the chief home of revenues based on the principle of ability to

pay is to be found in the more central governmental jurisdictions."[11] If all the governmental functions which are properly state and not municipal in character were both supported and administered by the state, there would be little left for the municipality which is not properly a charge against property. But, be it noted, such taxes would not be an application of the principles of the general property tax, for they would not be apportioned against property values. They would rather be determined by some physical attribute of the property, such as location, frontage, acreage, fire risk, and the like.

There is, however, an indefinite number of activities which municipalities would still wish to carry on, in strict conformity to genuine local self-government. Public parks and recreation grounds and similar enterprises are instances which will at once occur to the reader. The corresponding revenues are in principle personal and not property obligations. They are properly to be levied on local incomes, and the required amount should be collected through the state's administrative organization and paid over to the municipality.

We cannot pretend to have made in this single chapter an adequate study of the great subject of taxation. There have, however, been presented in brief form the cardinal principles in which the nature and behavior of taxes consist, in sufficient extent to make the chapters which are to follow comprehensible. Students of the school money who desire to investigate the subject more thoroughly will find the list of references which follows helpful.

READING REFERENCES

It was formerly the custom to include taxation in treatises on political economy. Texts in general economics still commonly follow the practice. During the past forty years, or thereabout, there has tended in England and the United States, in France, Germany, and Italy to become differentiated the science of pub-

[11] *Essays in Taxation* (10th edition), p. 663.

lic finance, and a respectable number of treatises in that field has been accumulated. Necessarily, taxation bulks large in such works. Taxation is, however, a field by itself. Singularly enough, the great bulk of the American literature is in the form of public documents. Academic specialists in taxation have not been numerous.

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CHAPTER VIII

INEQUALITY BETWEEN DISTRICTS

For a half-century past, by all odds the most conspicuous finding of students who investigate the problems of the school money is the very great range of financial inequality between school districts; specifically, differences in financial ability to support the schools required by our program of citizenship training. In general, under our system of taxation and political organization, one district will find so ample a sum of taxables behind each child to be schooled that with little effort it can raise abundant school revenue, while another district can support only the most meager schools under a burden of taxation which eventually proves utterly destructive to the tax base. The writer was once called upon to draft a bill which would relieve a certain district from the legal obligation of raising any school money at all until such time as it could expend its accumulated funds, while other districts in the same state were being depopulated by excessive taxation. The instance is extreme, but it is by no means unique. There are very few counties in the United States in which financial differences between districts, in ability to support schools, are not so great as to be ridiculous, the purpose of public schools being what it is, and very few states in which there are not similar differences between counties. Great inequalities between states undoubtedly exist.[1]

This being the case, why has not the wrong long ago been righted?

Much has indeed been done to mitigate the evils, through reconstruction of district lines, and through various methods of

[1] The inclusion of statistical exhibits of inequalities is deemed unnecessary. They can be found in great abundance in many of the state reports and state surveys, and especially in the works included in the list of references at the end of this chapter.

granting funds from the state treasuries, but, with one or two possible exceptions among the smaller states, the evil has not been corrected; nor can it be corrected until three fundamental causes of the malady are removed.

Despite the convincing analyses presented by the state courts, our people still largely think of public education as a purely individual and local benefit. The fact that money appropriated from the state treasury for the support of schools is usually called state "aid" betrays the public attitude. Such being the case, poor school districts are looked upon as poor relations at best, and perhaps sometimes not even the relationship is acknowledged. Tales of destitute townships are assimilated rather to tales of suffering in the Near East. We are sorry—and glad we do not live there.

However, even if all voters and all legislators should forthwith become state-minded, our system of taxation would make it impossible to organize a permanently effective remedy, although we might apply symptomatic treatment, as some of the states have done.

Finally, even if there were everywhere in force the most scientific systems of taxation which have thus far been proposed, and the most accurate method of apportioning equalization funds which students of the school money can devise, the district form of organization would still make equalization good only for the school year for which the necessary data had been assembled.

The condition as thus briefly set forth is singularly out of harmony with the only purpose for which the laying of school taxes has ever been justified, namely, the training of citizens. To return to the argument of the first chapter,[2] it is bootless to raise money to support schools in a prosperous and intelligent community if the graduates of its excellent schools are to drift away to other communities and their places are to be taken by undisciplined semi-illiterates who are the products of the financially inadequate schools of the taxed-out farming township, the congested factory village, the squalid mining-camp. The state legis-

[2] See chap. i, p. 4.

lature, moreover, is as much the representative of the latter class of communities as of the former. Further, equality of individuals before the law and equality in economic opportunity are the fundamentals of our conception of political society. We know that neither one can be fully attained by statutory enactment or constitutional declaration. The only equality we know anything about is freedom from the handicaps of ignorance, which is the parent of individual incapacity and the opportunity of the exploiter.[3] Such equality can assuredly not be generated in a state in which gross inequalities of school opportunity among its several communities must be the rule.

I

THE SCHOOL DISTRICT IN VARIOUS TYPES.—In the present chapter and those which immediately follow, we shall make large use of the term "district." It is perhaps well to remind ourselves of just what is meant.[4] We are using the term in its legal sense, and in that sense the school district is a peculiar corporation set up to carry out the purposes of the state in its program of public schooling. Like the county and the civil township, it is sometimes called a minor civil division. The incorporated city is a municipality, and so is the incorporated village. They usually also perform the functions of agents of the state government but not always, for even considerable incorporated cities are sometimes within civil townships. But even the largest cities are in legal structure school districts. Most people associate the term district with the "district school" of comedy, but the district which they have in mind is only the small subdivision of a township which grew up to meet frontier conditions in Massachusetts in the eighteenth century, was eventually recognized in the statutes, and continued long to be the fundamental type throughout the northern states. Let us identify it as the *frontier district*. There

[3] For a full discussion, see Carter and Lester, *This Economic World*, chaps. vi and vii.

[4] See chap. iv, p. 86.

have evolved several others and it is perhaps worth while to have them all in the record.

1. *The frontier district.*—This is a subdivision of the township, or at least geographically smaller than the township. These districts were originally one-room-school districts, and they typically still are. Nevertheless, with unimportant rectification of their frontiers to include prosperous farmers—strange how alike are school districts and empires!—they sometimes became village districts through sheer expansion of the ancient crossroads to minor urban pretensions. The differential characteristic of the frontier district is, however, in the fact that it is one of many districts which make up a township, either the civil township, or town of the eastern states, or the congressional township of the West.

2. *The independent district or union district.*—From the early part of the nineteenth century, every now and then, a representative body of citizens would appear at the doors of a state legislature praying for a special organization for a particularly intelligent and progressive community. The actuating motive was likely to be in the fact that one of these crossroads villages had spread over several frontier districts, and the incongruities of the situation had come to be too obvious even to the most hardened devotee of local self-government and of "keeping the schools close to the people."

Thus the independent school district, or sometimes the union district. The combination of an actual original superiority in the community, and the magic of that word "independent," caused the name in many such instances to outlive both the original intelligence and the original independence. In later days, these independent districts often came to be authorized by the general law, and they have sometimes proved a useful device in the transition to the modern county district.

3. *The town district or township district.*—During the last part of the nineteenth century, in the older states, the frontier district had come to be too ridiculous to be endured and battle

royal raged between the obscurantists and the "friends of education." It was during that fight that the cult of the "little red schoolhouse" became the battle-cry of the intransigents. The objective was the substitution of the "township system" for the "district system," and in due season the fight was won in the home of the frontier district. In principle, however, the chief gain was in the expansion of the tax base, and in the abolition of intra-township inequalities. The town or the township remained a district because that is what it was. It was still quasi-corporation, an agent of the state. Practically speaking, the change was a notable step in political ethics. In the days of the frontier district, there might be in a single township many men holding office as district trustees, prudential committees, district agents—whatever was the acceptable term. In even a small state, there would be thousands of these men, each of them supreme in a small district, empowered to appoint the teachers and buy the supplies. Seldom in our history has the opportunity of practical politicians been what it was then. They resisted the change with all the arts of the demagogue and all the coercive power of the rural mortgage. "The little red schoolhouse," "keeping close to the people," "home rule," "centralization," and above all "what was good enough for the fathers is good enough for the children"—all were proclaimed with trembling voice and streaming eyes. It is interesting to note that opposition to the county unit often takes precisely the same form and for precisely the same reasons.

4. *The chartered city or city district.*—A city very often has provisions for the support and management of schools written into its charter. Or it may operate under a general law prescribing school organization in cities of different classes. In either case, the city is still a school district, as the Supreme Court of Wisconsin recently took occasion to remind the city fathers of Milwaukee, and as the Kentucky courts have more than once been obliged to admonish Louisville. The city district, in point of its place in the state school system, or in point of its fundamental fiscal relations, differs not at all from the early independent dis-

trict. It may cover several townships, or even parts of several counties, instead of several frontier districts; and its size may require special administrative provisions. But at bottom it is the old Independent School District No. Blank "writ large."

5. *The county district (commonly called the county unit).*—Substantially the same process of evolution which was abolishing the frontier district and substituting the township district fifty years ago is today creating the county district. The process is, however, not quite the same. In the first place, the independent districts and the city districts which are within the geographical county, for a very good reason which we shall note later, tend to retain their identity. Further, there is as yet no instance of a county district organization in the East nor in the old West or Northwest, although an attempt has been made thus to organize Indiana. The county as a civil division is more a part of political habits of thought in the South, and thus far the South has been more successful in developing the county unit. Utah, however, is an excellent recent example.

The types of school district thus far enumerated may be said to be in the natural line of evolution. Other types, however, have developed, either to serve a special purpose or else as the result of efforts to seek a form better adapted to modern social and economic structure without abandoning the district principle.

6. *The consolidated district.*—All through the recent period, an important device directed to the solution of the rural school problem has been the discontinuance of small one-room or two-room schools in favor of large schools organized on the graded-school plan, with transportation of pupils. Such a device implies a "consolidated" district comprising several of the old frontier districts.

7. *The community district.*—In the process of social and regional evolution, the countryside tends to become centered upon small local trading centers. Thus there grows up a series of regional communities which are based not only upon commerce and transportation but also upon recreational, religious, fraternal,

and other social interests and activities. These communities are sometimes organized into districts with the school in the village. They have the administrative characteristics of the consolidated district with the addition of the community motive.

8. *High-school districts.*—The remarkable increase in demand for high-school training which has characterized the last thirty years has necessitated some extension of the frontier district, and even of the township district, in order to bring together sufficient pupils for high-school purposes and to secure a sufficiently extended tax base. Hence a consolidation of many frontier districts and sometimes several township districts for high-school purposes only. The district principle is retained, but there result of course underlying districts for elementary schools and an overlying district for high-school purposes.

There are several different forms of these high-school districts, but it is hardly worth the while to consider the forms in detail. So far as the fiscal structure of the state is concerned, they all conform to the fundamental type described in the foregoing. Save for the random development of our school system as a series of discontinuous schools, elementary school, high school, and college, the high-school district would be needless.

Now many of these eight different fundamental types of districts may easily be found within the same state. Illinois has all of them save the county district. With the exception of Delaware, the number of districts in any state runs into the hundreds and sometimes into the thousands. From the chartered metropolitan city, however, to the smallest frontier district they are all school districts. In legal structure and fiscal characteristics, they are identical. Two of the smaller states, Delaware and New Hampshire, are at different levels of evolution into the final stage in which there is no district at all, but that problem comes later.

II

Terms.—It is, of course, wholly impossible to think about inequalities among districts with any degree of precision unless

we can find terms of comparison and measures in which the terms can be expressed. The fundamental terms are *ability* and *burden*.

By *ability* we mean the fiscal capacity which a district has to maintain schools as compared with the capacity of another district. By *burden* we mean the relative sacrifice which a district must make in order to carry on its schools. In the use of both terms, we are limiting ourselves to a consideration of the district's tax revenue. We are inquiring what is its relative ability to raise money by taxation for the schooling of its children. What tax burdens does the schooling required impose? We are not interested in the non-tax revenue which it may enjoy. We refuse to be hampered by possible administrative plans. We are dealing with the fundamental fiscal facts and nothing else. We are inquiring into the nature of the fiscal differences between districts.

Measures.—American students commonly define the ability of a district as the amount of taxable resources behind each child to be schooled. Thus, $\text{ability} = \frac{\text{resources}}{\text{number of pupils}}$. This does very well as a generalized expression of the term. In this crude form, however, the formula is of small account as an accurate measure and we shall have occasion to study it in considerable detail. Nevertheless, it is infinitely to be preferred to the naïve assumption, still sometimes found, which holds that the abilities of districts to raise money can properly be compared in terms of their aggregate valuations, that is to say, that a district which has a total valuation of two millions is twice as well off for school purposes as one which has a total valuation of one million. What if the first district has an enrolment of a thousand children and the second of five hundred as may very probably be the case? Evidently, their respective abilities are then superficially the same.

Theoretically, the tax rate is a measure of burden, since the higher the tax rate, other things being equal, the greater the

financial sacrifice the district is making. The published tax rates, however, when the base is in property values, are so unreliable as to make them useless for scientific purposes. Nevertheless, the customary method of computing the tax rate gives us our fundamental formula for burden:

$$\text{burden} = \frac{\text{money raised}}{\text{resources}}.$$

If the resources are in taxable property, as they always are, then the two formulas become:

$$\text{ability} = \frac{\text{aggregate valuation of the district}}{\text{number of pupils}}, \quad \text{burden} = \frac{\text{money raised}}{\text{aggregate valuation of the district}}.$$

The *aggregate valuation* is the total of all individual owners' values as found by the assessors. It sometimes bears such names as inventory, tax duplicate, grand list, or the like, differing somewhat from state to state.

We thus have three different definitive terms in the two ratios, aggregate valuation, number of pupils, money raised.

III

VALUATION.—Districts cannot be compared with respect to the aggregate valuations unless we know the assessment ratios of the several districts. When property in one district is being assessed at a mean ratio to true value of 30 per cent and in another the corresponding ratio is 40 per cent or even 60 per cent to 80 per cent, it is obviously a waste of paper and printer's ink to publish tables which purport to be accurate accounts of the comparative standing of the several districts. If equalization acts are drafted, the district valuation must of necessity be a factor in computing apportionments, and with no comparable figures there is a powerful inducement for local assessors, as we have seen, to undervalue property. It is of no consequence to the taxpayer whether he pays a high rate on a low valuation or a low rate on a

high valuation. But a low assessment ratio means more state money for the district, and it has almost universally proved to be very difficult for state boards of equalization or state tax commissions to enforce uniform assessment.

In order to determine assessment ratio, somebody must know the true valuation apart from mere local guesswork. Hence, aggregate valuation in our formulas at once becomes aggregate true valuation, or, for short, *true valuation.* But what is true value?

True Value.—The preceding chapter has made clear the meaning of the terms *true value* and *assessment ratio* as they are employed in the process of laying taxes. We have further seen that true value, in the case of real estate particularly, is hard to come at and, in most cases impossible; and that much tangible personal property has no economic value whatever.

Hence any serious attempt to measure inequalities between districts is likely to be stopped at the outset because of the difficulty of determining true value. Any sort of legislation which depends upon true value, unless the latter can be accurately determined, will create about as many problems as it solves, for the term itself is emphatically a fiscal reality. It cannot be treated in a cavalier fashion with impunity.

Number of Pupils.—The number of pupils is an obvious expression for load. It is easy to use the language employed on page 171 and say that the relative financial ability of a district is measured by the amount of taxables behind each child to be schooled. We do not get very far in our thinking, however, before it becomes clear that "number of pupils" is a nebulous expression, and that it is hopeless to attempt to compare districts unless both terms of the ratio are accurate and mean exactly the same thing in all districts.

In the first place, the load does not vary directly with census, enrolment, average daily attendance, teacher-quota, or any other expression which is a function of number of pupils, even assuming equivalent schooling in all districts.

a) The factor of relative overhead varies far outside any

acceptable margin of error. In the one-room school, there is little or no difference in cost between a school which enrols half a dozen pupils or less and one which enrols thirty. It is true that districts can be grouped so as to put those which show this typical form of disproportionate overhead in a group by themselves, but such treatment only means that one complicating factor has been removed so far as intra-group comparisons are made, that is, comparisons within groups of the same type of schools. Extremely complicated mathematical treatment in which this factor, as well as others, is accounted for may make inter-group comparisons possible, but only in case assumptions as to other factors noted here are valid and constant from district to district.

b) Districts vary greatly in the number of auxiliary agencies necessary for equivalent schooling. The outstanding example is the cost of transportation in rural communities, but there are a variety of others running through different community types noted below, up to and including the apartment-house city. To maintain equivalent schooling in the slum district of a great city, for instance, requires expensive auxiliary agencies fully equal in relative cost to the most expensive transportation system in a country township.

c) Whatever corrections are applied to the foregoing, equivalent schooling implies wide differences in relative cost of personal services, and there is thus introduced a variable which refuses to conform to any other system of variables. Cost of living, the local dollar index, varies greatly not only from city to city but also between rural, village, and city districts. Further, the differential in salary which must be allowed in order to attract competent services in different types of districts and schools varies quite independently of living costs. In the long run, service on an island off the coast of Maine, in remote communities in the Ozarks, in sparsely settled sections of the Southwest, or in the slums of the great cities must be more highly compensated than equivalent service in agreeable small cities. True, missionary spirit may now and then give better than equivalent service in

such relatively unattractive regions, but we are studying the economics of the situation, not eulogizing the merits of philanthropy.

Hence, the single concrete, objective fact obtainable is cost in money spent. It is hopeless to attempt to reconcile an immense number of variables from district to district upon which cost is theoretically predicated, especially when the variables refuse to reappear from year to year as the same variables. But with a modicum of elementary bookkeeping, we can know what the annual cost is from district to district and year to year. At least the measure of load is simplified to that extent. Whatever variables there may be in factors which occasion cost, the cost is there, and it is expressible in the pecuniary units of the republic, dollars and cents.

Costs.—But cost of what? If these districts which the state has engendered, charged with the duties of diligent children, and empowered to sue and be sued, are to be looked on as corporate persons indeed, some of them capable and prosperous and many of them incapable and impecunious, and the problem is simply one of compelling the prosperous to share with the needy, then the question is meaningless. Whatever they are paying for, we hope it does not cost much. State "aid" can be appropriated, and no doubt it will do much good. Such is not, however, our problem. We are rather endeavoring to study the issue of inequality between districts and to discover whether or not it can be measured.

As we have seen, the essence of the district is that it is a minor civil division of a peculiar type and that it exists for the purpose of training citizens, of reproducing civilization. Hence its schools are citizenship schools. We cannot compare the fiscal qualities of districts unless we can do so in terms of a common purpose effectively carried out, or at least in terms of the achievement of a known and recognized part of such purpose.

Now we can define cost as being: (*a*) cost of a nine-months school; (*b*) cost of a nine-months school following a standard program of study; (*c*) cost of a nine-months school, following a standard program of study, taught by teachers of specified quali-

fications; (*d*) cost of a nine-months school, following a standard program of study, taught by teachers of specified qualifications and paid a minimum salary; (*e*) cost of a nine-months, eight-grade school, following a standard program of study, taught by teachers of specified qualifications and paid a minimum salary.

And so on for the remainder of the chapter. Whatever attempts we may make to define cost in such fashion, we shall always find ourselves defining adventitious characteristics and not schools. Any two districts, chosen at random, each of them possessing all the required specifications, will still differ greatly in their approach to the achievement of the purpose for which all tax-supported schools exist. Granted that the foregoing terms are all definite, and granted further that we have thus a basis for comparison of cost as between districts, and granted finally that as yet we have no means of determining definitely whether or not any district is actually achieving the citizenship purpose—it still remains that comparison between districts which possess mere circumstantial characteristics is nothing more than an interesting academic exercise. We gain nothing in the interest of truth by carrying out an analysis which has no validity merely because we can make such an analysis and cannot for lack of instruments make the only analysis which is valid.

"Number of pupils" as a measure of load then resolves itself into "cost of maintaining effective citizenship-training." The adjective "effective" is interpolated for the sake of being explicit. It adds nothing; the only citizenship-training is effective training.

Money Raised.—The third of the terms in the expressions for ability and burden is "money raised." The only justification for the term is its use in computing tax rate, and tax rate is the obvious measure of burden. Nevertheless, brief reflection must make it clear that any such expression is merely a measure of more or less fortuitous circumstances with no relation to any fundamental constant to be used as a basis of comparison. If we use "maintenance of citizenship-training" as the reference con-

stant, and there is no other, then "money raised" becomes meaningless, since the constant presumes that there will be *money enough* raised, and that is only another expression for cost of citizenship-training.

Most studies of inequality which have an eye on administrative measures looking toward equalization funds ignore the fundamental constant and treat *burden* as *effort*. Thus, there is introduced an administrative term, *effort,* and the purpose of the equalization act is then in principle to distribute money in proportion to ability in such wise as to maintain all districts at some central tendency of effort for some minimum circumstantial requirement, such as one of those listed on page 175.

To resume consideration of cost. It is obvious that cost must mean fundamentally the same thing in point of accountancy in all districts. To estimate cost in a country district, in which capital depreciation is small and extension a minus quantity, in the same manner as in a growing city, in which depreciation is formidable and extension a serious problem, is to belie all serious attempts at measuring inequality. If administrative distribution of state funds rests on that conception of cost, serious injustice will be done the growing cities. If cities ignore the capital costs mentioned, as most of them do, then an equivalent and greater debt service expenditure is engendered. Nor is the capital management alone to be considered. If one district manages its operating cost on a balanced-budget basis and the next borrows annually the major part of its expenditures, thus entailing a large operating interest cost, the annual cost figures for the two are evidently not comparable. To allow distribution of state funds without reference to such essential differences is to reward shiftlessness and penalize thrift. Ignoring proper cost accountancy is perhaps the reason why some writers have found that their formulas fail to work when applied to the larger city districts.

The terms of our original formulas for measuring inequality are then reduced to two: *valuation,* or the aggregate sales value of all parcels of property taxed; *cost,* or the full cost, as deter-

mined on valid principles of accountancy, of adequate and effective citizenship training; hence:

$$\text{ability} = \frac{\text{valuation}}{\text{cost}}, \quad \text{burden} = \frac{\text{cost}}{\text{valuation}}.$$

Thus, if the full citizenship school is assumed to be the school constant, *ability* and *burden* are reciprocal terms. These are the fundamental expressions. They are valuable as points of departure, first, because there are thus ruled out such misleading circumstantial indicia of load as terms derived from number of pupils, on the one hand, and descriptive school requirements, on the other; and, second, because they start from the assumption of *equal opportunity*, which is not only the ultimate objective of all equalization studies but also the basis in law and in principle of the whole public-school system.

Equal Opportunity.—Equal opportunity means opportunity to be educated; it is not a fiscal term at all, but rather the basis from which fiscal problems must be thought out. The latter must be reduced to terms of pupils and their education and ignore all such bases as elementary schools, high schools, and what not. If the census of a given district is 100 pupils, there is a district obligation of full education to the extent of the citizenship school for 100 pupils. As a matter of administration, the pupils may be schooled partly in the district and partly elsewhere. The district may be entirely unable to carry the burden. We are not begging the whole question by taking such matters into account. We are only seeking the ultimately valid basis of comparing the fiscal capacity of districts. We are not disturbed by the fact that valuation is exceedingly hard to determine, or by the further fact that the effective citizenship school is not defined. We are not deluded, on the other hand, by terms which are measurable and defined but which are either misleading or meaningless. We face the necessity of finding measures and definitions of the valid terms, or else of concluding that the whole problem of inequality between districts is not worth solving.

Valuation, however, is valid only on the assumptions of the general property tax. It remains to be seen whether or not the valuations required by that form of taxation, even if accurately and validly determined, can possibly mean the same thing in all districts.

IV

Ratio of Income to Property Value.—We make no progress whatever toward an understanding of the relative fiscal capacity of school districts unless we keep clearly in mind the principle that the true measure of fiscal ability is in popular income and not in property value.[5] Two fundamental issues are at once presented.

Theoretical economics at once demurs and holds that most property values are simply functions of income from property. No careful thinker would hold this principle to be true of all property, for undoubtedly many forms of non-income-producing property have values in exchange. Examples are such personal property as gems, pleasure cars, household furniture, objects of art, and in general forms of wealth which contribute personal satisfactions rather than income. Some writers are inclined to admit residence property occupied by the owner to this category, but there is evidently always at least an imputed income attached to such holdings, in the form of domestic rent. However, non-income-producing property is personalty, and as such in practice it bears little or no tax. We are concerned chiefly with realty, since realty bears the major part of the general property tax.

Now, when economists state that value is a function of income, what they mean is that the price which purchasers can afford to pay is determined either by what the property is earning or else by what the purchaser thinks it can be made to earn. Like

[5] The term "income" as here used is practically equivalent to receipts minus operating expenses, including interest payments. Let us bear in mind that the term as thus used includes the rewards of labor and of enterprisership, rent, and interest on investment. It is not gross income, and it is not always net income in the accountant's use of the last-named term.

most cases in economic theory, the principle comes true in actual practice only when purchasers are clear and accurate thinkers, and that does not often happen. In the long run, it is doubtless true that practice tends to conform to principle; but taxes are assessed in the short run, and, when the assessor does all that man can do, the value which he places on property is the price for which, in his judgment, the property would sell in the general complex of motives which induce transactions in real estate.

On the other hand, it is not true that value even in theory varies as income save within homogeneous classes of property. While it is true in general and in the long run that the value of farm property in comparison with other farms is determined by the income which it will produce, it is not true that the same relationship exists between farms and factories, or between tenements and retail stores. A given manufacturing concern, for instance, may be turning out a product which yields a very high net income, while the plant may have so little value as taxable real estate that the industry can well afford to scrap its plant and move elsewhere. In brief, the income *associated* with property varies almost endlessly in its relation to the value of the property, ranging from agricultural land, in which the whole income is *derived* from the property, to some forms of industry in which the real estate is only a minor factor in the income.

Community Types.—The second fundamental issue in the principle that income and not property value is the measure of taxpaying ability is found in the fact that districts vary greatly in the ratio of aggregate popular income to the aggregate value of the taxable property in the district. In some districts there is very little income save that which is derived from the property which is valued and taxed. In others, the income derived from the property taxed is a small matter compared with that derived from wages, salaries, interests, dividends, royalties, and profits. It is evidently then futile to suppose that we have accurately compared the abilities of districts when we have compared their property valuations, even assuming that the latter are true and accu-

rate. It will perhaps prove worth the while to examine certain types of communities with respect to this variation.

THE RURAL TOWNSHIP.—The point of departure is the rural township, in which the ratio of popular income to property valuation is in the nature of things lowest. Nearly all income is derived from the property taxed. The amount which is in wages, save as an economic term applied to the farmer's own labor, salaries, and professional incomes, is low, and that which is derived from intangibles is typically at the lowest. There are very rarely any incomes in what may be called the federal surtax classes.

Let it be noted further that in this type of community every sort of earnings—wages, interest, rent, and profit—must be laid under contribution to meet the tax bill, whereas wages, interest, and profits very largely escape in the urban community types, save as they contribute to a limited and very uncertain extent through taxes passed on by the original taxpayer. In a recent North Carolina study,[6] five of the twelve counties studied, covering 501 of the 1,115 farms used in the sample, showed in the several county aggregates minus net income, accounting income as the city man accounts it. Of course, farmers in these counties could not meet their taxes out of net income for they had none. In another county which had a small net income, the taxes were at the rate of 278 per cent on the latter. Reeves found much the same story in Illinois[7] and Russell in Iowa.[8] More than that, it is this type of community more than any other in which taxes, which are necessarily carried as part of the cost of production, cannot be shifted.

THE MILL TOWN.—Modern industrial society has produced a type of community which is perhaps sufficiently described by the title. The mill town, in its pure type, may be nothing more than a village or it may be a large city. It has many peculiarities

[6] *Report of Tax Commission* (1928).

[7] *The Political Unit of School Finance in Illinois.*

[8] *The Financing of Education in Iowa.*

and has been rather generously dealt with in the sociological literature, but, so far as I have observed, it has largely been passed over by students of school finance. It is founded on industrial production and typically has only the commercial and social services required by the inhabitants. It is abundantly equipped with retail stores, but it does little wholesale business. Its banks are those required by the local trade, but it has no important financial institutions. Its mill-owners are no longer residents.

In noting the ratio of incomes to property values, the circumstance last named is important. The aggregate incomes derived from the great industrial plants, apart from wages and salaries, are not found in the community. Even the major highly paid officers are quite likely to be taxable elsewhere. The great bulk of the individual incomes are those of industrial wage-earners, and few of them fall within the taxable levels. There are, of course, many commercial and professional incomes, and in the larger industrial cities many of these are in the surtax classes.

There is also always a considerable amount of income drawn from intangibles, and despite the fact that the latter largely escape taxation as property, the income from them is available for the payment of property taxes. Hence the cardinal principle that real estate taxes in this or any other urban type of community are much less likely to destroy the base than the same taxes in rural communities. However, millionaires do not congregate in mill towns. I know of no careful studies showing the facts as to income distribution in this type, but, owing to the low level of the great majority of incomes and to the fact that the capitalist income from the industries themselves is typically absentee, it is safe to conclude that the ratio of aggregate incomes to property value is low as compared with some other community types.

Further, this type more than any other is subject to periods of depression, since the whole economic life of the community often rests on a single industry.

Whether an accurate measure would show that districts of this community type are of higher ability than rural townships is

doubtful. Not only is valuation associated with low income, but the relative cost of effective schooling is irregular and uncertain. When unrelieved by parochial schools, cost is, or should be, higher than in any other type save the metropolitan city, largely on account of the auxiliary services required.

The Parochial School.—In this connection, we must digress briefly to consider the relation of the parochial school to the district's fiscal ability and burden, whether in this type of community or another.

The parochial school is a public school and not a private school, but it is not a State school. Theoretically it is a citizenship school in which religion is part of the program. While it is supported by tuition fees, it does not represent a special service, as does the private school, payment for which is, in effect, like any other payment for professional services in the free market. The parochial-school tuition is not a tax, but it operates much as would taxes if they were levied only on parents of school children. If not a public tax, it is at least an impost. The cost of maintaining parochial schools cannot be said to be directly an addition to the burden on the taxpayer, equal to what equivalent State schools would be, for few of the parents who pay the tuition are taxpayers. To the extent that they are not taxpayers, the parochial school is a relief to the cost of maintaining the district's obligations, since it in effect draws upon the incomes of citizens who pay no taxes and thus adds the equivalent of an extraordinary revenue to the resources of the district.

Altogether the fiscal peculiarities of the mill town sufficiently complicate the problem of arriving at an accurate measure of inequalities between districts, when property is the tax base.

The Trading Center.—Throughout the nation are scattered innumerable examples of communities which are essentially distribution centers for the surrounding productive region. Beginning with the village, on the railroad or navigable water course, which consists of a few retail stores, a grain elevator, or other warehouse, very likely a creamery or similar business, two

or three automobile repair shops, a small bank, and similar servicing enterprises for the countryside round about, we have the type of all of them. Next in order is the small city center, which serves the village centers, and then the regional center, which bears the same relation to the cities, and so on up to the great continental metropolis. It of course soon becomes hard to find the pure types, for, as the circles widen, the commercial city becomes also an industrial center. For the purpose of analyzing the fiscal structure of the state, however, it is useful to study the trading center as a type.

The true property valuation tends to be rather large in proportion to population, for, while there are no great factories, there are not endless rows and colonies of the cheap tenements, swarming with people, which go with factories. The population tends to be of a type which demands and secures comfortable and often expensive homes, one family to a house. The business property tends to represent rather low valuation compared with the aggregate of residence value. The amount of income which is derived from property is relatively low. Even an advantageous site for a retail store does not produce income in the same sense in which a farm or industrial plant produces income. The income which is in the form of wages is relatively low, that which is in the form of salaries is relatively high, and that which is in the form of enterpriser's profits is typically high. There is apt to be a good deal of income from intangibles and the proportion increases very greatly as we ascend the scale of city size. There are many professional incomes even in the smaller places, for the dwellers in commercial cities demand and pay for good medical service and their competitive ways require many and good lawyers. Other learned callings are in proportion. In the larger cities of this type, the high-class incomes congregate and increase in amount.

Now beginning with the smallest of the trading centers, the ratio of aggregate popular income to property value is typically larger than in the mill town and out of all proportion to what it is

in the rural township. In general, the commercial city will stand high property taxation, first, because not much of the income is derived directly from property, and, second, because there is a good deal of income with which to pay taxes.

One million dollars true property valuation here means vastly more than does a corresponding valuation in the rural township. A property tax rate which would confiscate the farmer's entire income may be borne by the commercial city, if not with equanimity, at least without disaster.

The Residential City.—About every large city clusters a group of larger or smaller residential suburbs which are of it, but, thank God! not in it. They bear picturesque names, which suggest flowers and hillsides and lordly heights—even the prairie city has at least one suburb bearing the name of "Heights"—and golf courses. If they are workmen's suburbs rather than bankers' home towns, they are called "Manors" or "Parks" or "Terraces." The meaning of the suburban city is that it is the way to escape noise and dirt—and taxes. There is no industrial property and no great commercial and banking property. The property valuation may be high in proportion to population, but the ratio of aggregate incomes to property valuation is often tremendous. The reason is to be found in the fact that here congregate intangibles which produce income beyond the dreams of avarice. It would be extremely difficult to "tax out" the wealthy residential city, save for the fact that their wealth makes the residents foot-loose. Still, residents perhaps as often move because they dislike the minister or the chief of police or their neighbors as for the reason that they think themselves overtaxed. Tax officials and taxationists sometimes pour out the vials of wrath on wealthy suburban cities, but there is this convincing excuse for their existence. One of the motives of the well-to-do suburbanite is disgust with the hopeless politics, dishonesty, and wastefulness of city government.

The school *expenditures* of the residential city are often very great, and the schools are often simply tax-supported private

schools. Not infrequently, the high-school building in particular is an expensive pupils' and teachers' club rather than a schoolhouse. Nevertheless, the *cost of the citizenship school* in this type of community is the lowest of all the types enumerated, simply because the needed auxiliary agencies are at the minimum.

Such is the residential suburban city in type. Of course in aggregate popular income per capita there are all grades, but what is true of the wealthiest is also true in principle of the least wealthy: in all of them popular income is not typically associated with the property.

Variants of the type, other than suburban cities, are of course cities which are mainly residential, to be found here and there throughout the land, but especially in the Northeast and on the Pacific slope, the summer colonies of New England, and the larger winter resorts of the South and California. The so-called tax colony—descriptive term!—is another variant.

The Apartment-House City.—The term metropolis has traveled a long way from its etymological derivation. In the vernacular, any large place is a metropolis. Even the aspiring country town is sometimes hailed by its journalistic boosters as a metropolis. The American metropolitan city, to use the term in the semitechnical sense applied in current studies, has recently been the subject of a great deal of investigation—and more concern. We are not particularly interested at present in theories touching its origin and reason for being. The one characteristic which marks it off as a community type within our meaning is its tendency to pile itself up in the center and flow out over the adjacent area like a heavy viscous mass. Except for the apartment-house characteristic, it is simply a commercial or industrial type or a complex of the two.

City land is inherently valuable. From a comparatively early stage in city development, increasing rent results in the occupation of all available land, outside the business and manufacturing sections, by residences. At the beginning of the period of con-

gestion, the aspect is one of single-family houses crowded closely together. Even at this period, the result may be congestion, to a greater degree than most people realize. A Chicago block of single-family houses, for example, may easily have 50 children of school age, even in sections in which small families are the rule. But 50 children in one of these blocks is at the rate of 6,400 per square mile. The early stage of congestion does not last. The single-family houses, which elbow one another on small lots, are replaced by the three-story flat building and then by successive layers until impressive pueblos are the result.

The cost of load per school child for adequate citizenship schools in such cities is enormous. Not only are the auxiliary agencies required at a maximum, but the capital investment is necessarily disproportionate. There must be great school buildings at frequent intervals, and each of them must occupy land which is very valuable.

It cannot be contended that every community in the land belongs to either one or another of the five types thus enumerated and described. The rural township, the suburban residential city, and the apartment-house city do tend to be rather distinct. The others, of course, are likely to be more or less mixed. Nevertheless, if the reader will consider the first hundred towns with which he is familiar, he can hardly fail to observe how very generally each of them conforms to one or another of the types. Nor is this an exhaustive list. Now and then a peculiar type turns up, such, for instance, as the *temporary community*. One finds examples of the latter in oil towns, sawmill towns, and many mining towns. These in general conform to the mill-town type, but their economic foundation is in a natural resource which in its nature cannot last long. A special problem in the management of school capital is thus created.

A very pertinent inquiry is, Are these community types tending to become more or less differentiated? And on the issue we have a significant body of facts. The President's Committee on Recent Economic Changes found clear evidence to the effect that

not only is there definite move of industry from city to country but also a tendency for local and regional concentration to break down in favor of a more equal distribution of manufacturing. The causes of the shift are probably numerous, but rapid increase of land values in cities and the well-known increasing per capita cost of public services rendered as community population increases are clearly in the picture.[9]

V

An Impossible Task.—Thus is set forth the problem of measuring inequality between districts when districts are compared in terms of aggregate valuation of taxable property. It simply cannot be done, short of an investigation comparable with that undertaken in the physical valuation of railways, and, were such an investigation undertaken, it would be worthless unless it were completed within a single fiscal year and repeated every year. We know that there are gross inequalities, but nobody has ever measured them. Even the best of the studies ignore what are in reality the prime factors in taxable ability as predicated of school districts. Such studies simply reveal something of the order of the differences which exist.

1. There are no accurate and comparable figures for valuation, even when an effort is made to arrive at true valuation, for the reason that the only mechanism which can reveal such as of a given date, namely, transfers on an open market, can seldom work.

2. Even if there were such valuations, districts would not be comparable since the ratio of property valuation to income associated with property of necessity varies greatly as between communities, and especially as between community types.

3. The ratio of aggregate property valuation to aggregate popular income in the district varies as it does in 2, since differences in earnings from practically untaxed intangibles are, in fact, enormous and must necessarily be so.

[9] See *Recent Economic Changes*, I, 206 ff.

4. The effect of the property tax on its base in real estate varies greatly. A rural community is quickly impoverished, while a residential community will endure as a matter of economic effect almost any tax the people are likely to sanction.

5. Most of the studies utilize number of pupils or some derivative as the denominator of the fundamental ratio $\frac{\text{resources}}{\text{load}}$. We have seen that such practice is wholly unreliable if we are seeking an accurate, or even a valid, measure. The requirements for equivalent education for the same number of children vary greatly.

6. Similarly, some of the studies describe equivalent schooling in terms of purely formal requirements, such as nine-months school, elementary school, elementary and high school, and the like. The result will very evidently be only supposititious. Nine months, high schools, qualified teachers are intended to produce effective schools, but they are not themselves effective schools.

We can correct the investigational practices just described by setting up *cost* as the denominator in the *ability* formula. But cost is meaningless except it be cost of something. Cost of what? The answer has been given in terms of the purpose for which tax-supported schools exist in civilization, in the civil state. It is little better than silly complacency to argue that the rising generation of American citizens in a country town "need" little, or that the children of a city slum should be given an "education suited to their needs," and that the children of the well-to-do, and no doubt cultivated, suburb require much. They all require the same and that requirement is intelligent, effective American citizenship. The achievement of the universal purpose requires different types of school organization and different types generate widely different costs. The analysis by community types suggests very clearly that the scale of costs for the achievement of a common purpose probably differs from district to district far more than has been supposed.

Further analysis would show that effective citizenship schools maintained everywhere for a generation or more must show diminishing costs in terms of dollars of current purchasing power, since a large element in cost is traceable to the expense of maintaining adequate auxiliary agencies to mend the consequences of the failures of ignorant and uncivilized families.

How different would the terms of the problem be, if the tax base were estimated in income rather than in property values?

VI

Resources Estimated in Popular Income.—Instead of estimating resources in terms of property valuation, we may estimate them in terms of aggregate taxable incomes. Such an estimate implies a carefully worked out definition of taxable income in which proper exemptions and progressive schedules are determined, and in which the accountancy principles to be used are prescribed. The federal income tax may be used as a basis, or that of Wisconsin or New York. The essential is a definition agreed upon. As we have seen, income is objective and accountable, while property valuations are subjective and indeterminate. Well-established principles of accountancy make it possible to define net income so that the term means the same thing for the farmer, the factory operative, the professional man, the enterpriser, the capitalist. If individual incomes are the basis, differences in the behavior of taxes are minimized. No doubt, differences in the import of taxation to individuals will still exist, but such differences will not apply to districts as districts. Public policy in the use of the tax mechanism for social and economic betterment may and should differ from time to time, but again such changes do not interfere with the progress of measuring differences in resources between districts.

Altogether, then, when the two instruments to be used in measuring become

$$\text{ability} = \frac{\text{aggregate taxable incomes}}{\text{cost}} \quad \text{and} \quad \text{burden} = \frac{\text{cost}}{\text{aggregate taxable incomes}}$$

difficulties in accurately, if not precisely, measuring the *resources* term disappear.

Cost.—But difficulties in appraising *true cost* as distinguished from local expenditures still remain. Manifestly, we cannot compare two districts when one is spending twice as much as it ought to spend and the other half as much; nor when one is achieving the common purpose and the other is not. And there is no solution apart from the continuous investigation which is implied by abolishing the districts and setting up a state system. *Measuring district ability and burden implies a legislative and judicial purpose in a system which is fixed and determinate. But the problem is executive and administrative in a system which is fluid and indeterminate and not legislative and judicial.*

The Nature of the Problem Misunderstood.—President Wilson once remarked that the founders of our government were more or less under the domination of an ideology which interpreted the world in terms of mechanisms and not in terms of organisms. Hence their favorite device of checks and balances. So in this old and unsolved problem of the financing of a state purpose through corporate bodies which must continuously differ among themselves in financial capacity to achieve the state's purpose, thinking has tended to be that which is appropriate to the science of chemistry. The attempt is to discover fiscal atomic weights and laws of combination, when there are in reality no elements which belong even to the kind of thinking which physical science employs.

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Most university departments of education have on file useful exhibits of inequalities submitted in satisfaction of the requirements for advanced degrees.

CHAPTER IX

EQUALIZATION

Various state governments have long been aware of the situation which has been discussed in the last chapter. That they have been effectively aware can hardly be claimed. The periodic emergence of the rural question has necessarily brought to light these monstrous disabilities among districts, but the practical effect seems to have been to assimilate the whole matter to that complex of issues which at intervals for more than two thousand years has been known as the agrarian question. During a period of about fifty years, students of school administration have occupied themselves in collecting facts and in attempting to devise formulas for the correction of the more obvious inequalities. Political economists, however, seem to be singularly unaware that there is any problem of major public concern here at all, judging from the unconcern with which distinguished writers in public finance deal with the revenue which supports the largest single expenditure of the states and local communities, and which, they must be aware, is unique among public revenues, both in its purpose and in the method by which it is raised. Thus far there is little reason to think that students, to say nothing of legislators, see anything more in gross inequalities among districts than a question of finding some way to "help the poorer towns." Few, indeed, see the matter as a problem which involves the cities as well as these weaker brethren in our congeries of minor republics; or see it as the revelation of a malady in our whole fiscal system, a malady which blocks the use of our economic resources for the schooling of the rising generation.

If there is inequality, we must equalize, and equalization seems the easiest thing in the world in a land where everybody is willing to try anything once. Let the state raise one-third, the

county one-third, and the district one-third. That ought to accomplish the result. How and wherein we are not told. Let the state raise a fund under a property tax of 1 mill and distribute it to the districts in proportion to census children, or, if you prefer, in proportion to assessed valuation. So long as state money is in the picture, all will be well. Let the state distribute funds, origin not specified, directly in proportion to average daily attendance and inversely in proportion to valuation per school child. The last type of act has at least the excellent merit of being a good truant officer. All these and others have been tried. We have a childlike faith in "plans." When the inevitable disillusionment comes, we conclude that the plan "did not work" and look for another. In the case of equalization schemes, the disillusionment is prone to come at a time when the original plan has been forgotten and inequality is discovered all over again. Now a state school system is altogether too valuable a creation to be used indefinitely as a laboratory animal. Before trying any more plans it would seem to be the best part of wisdom to study the elements of the problem itself.

We shall attempt, then, in the present chapter to investigate the fundamental issues with a view to arriving at some understanding of what is involved, not only with respect to the question of helping poorer towns, but also with an eye to the equalization of the actual tax burden, to the maintenance of adequate schooling, to the utilization of escaping taxables, and above all to the securing of the steady improvement of the tax base. No law which ignores any of these issues, either explicitly or by necessary consequence, is an equalization act at all.

Two Major Approaches.—Disregarding acts which are obvious guesswork and little more than expressions of vague aspirations to do some good, the history of legislation reveals two entirely distinct attacks on the problem. In one, the district organization is left intact, and an attempt is made to distribute state money in such fashion as to equalize the financial capacities of districts. In the other, the districts themselves are modified, either wholesale or piecemeal.

I

Equalization through Distribution of State Funds.—In the equalization acts which are based on the distribution of state funds, a variety of purposes have been included. Among these may be noted: equalization of some sort, pure and simple; equalization with stimuli designed to secure better buildings and better teachers; equalization plus a stipulation that certain standards shall be maintained.

A reconsideration of chapter viii will doubtless make it evident at once that equalization cannot be combined with other and different purposes. If an act is so drawn as to give bonuses for sundry characteristics of a good school, such, for instance, as a qualified teacher grant, then the act ceases *pro tanto* to be equalization. Two districts which have the same presumptive ability index must be given the same amount of money if equalization is intended. If an addition is given to one of the two for a special purpose, the equalizing effect, if any, is destroyed; a *subvention* is set up.[1] A subvention system may conceivably be an excellent thing in itself, but it is incompatible with fiscal equalization. On the contrary, subventions may stimulate the very kind of excessive local taxation which equalization acts are intended to remedy.

On the other hand, that form of subvention which stipulates that no payments will be made to the local district unless standards are maintained is tantamount to bribery of a minor civil division by the sovereign. It is a bad way to secure the intended result. It is a legislative confession that the district system itself is fundamentally vicious.

Equalization of Amount Available per Pupil.—Perhaps the simplest form of equalization act based on a distributive state fund or appropriation is that which disregards district ability and provides for the distribution of state money in such fashion as to provide equal opportunity for all children, so far as equal opportunity is a matter of money available. Of course

[1] For discussion of subventions, see p. 211.

equal opportunity has to be translated to mean equal minimum opportunity expressed as some characteristic of a desirable school.[2] If the state attempted to describe equal opportunity in terms of the schools of rich residential suburbs, there would be an early exodus from the state of all movable capital. Obviously, no such act can disregard *district effort*, expressed as a minimum tax rate or some derivative thereof. Otherwise, some districts would promptly relax to the extent of their receipts from the state treasury. The distribution is necessarily some form of per-pupil grant, such that there will be available in the district a specified amount per pupil or some function thereof, counting together the amount raised locally and the state money received. The type is a response to the help-the-poorer-towns motive. Since ability and burden, assessment ratio, cost of adequate citizenship school, and ratio of taxable incomes to property valuation are ignored, there is no question whatever of true fiscal equalization and all that that term implies in bringing to the support of schools the economic resources of the state and in keeping the productive power of the people in healthy condition.

No doubt such acts have done good service in making fairly good schools possible where none such had hitherto been, and in stimulating the poorer districts in the direction of educational awakening. How much harm they may have done, nobody knows. They belong to periods in which leaders in public-school endeavor are faced by a massive popular indifference, and particularly to periods in which it is necessary to stimulate attendance at school. Clearly they are no part of a permanent fiscal policy in a mature state. To elaborate the reasons for the last statement would be practically to rehearse those portions of the last chapter which deal with number of pupils as a measure of load and with aggregate valuation as a measure of tax-paying ability.

[2] See chap. viii, p. 175.

II

Fiscal Equalization.—In a mature state, actual fiscal equalization through the use of a state fund or of the taxing power is, of course, an attempt to erect a permanent fiscal system based on the district as agent of the state. Anything short of that is necessarily a mere expedient adapted to current needs and of doubtful advantage. It remains to scrutinize the terms of any such problem.

The point of departure is either to determine some constant element in cost of load or else to determine the actual necessary cost in all districts for the standard schools desired, in accordance with the analysis of inequality presented in the last chapter. Otherwise any mathematical treatment of the reciprocal variables, *ability* and *burden,* would be mere juggling figures. Let us assume for the sake of argument that it were feasible to survey all districts and determine the necessary cost of the citizenship school in each district. That would have to be done, to the extent at least of a valid sampling, if some constant element as a function of number of pupils to be schooled were to be discovered. If this were done, we should then have the only possible basis for solution of the fundamental problem stated thus:

By Use of Equalization Fund.—Given a series of districts of varying fiscal ability, to distribute state money in such fashion that there will be the requisite amount available in each district and all districts will bear the same burden as expressed by the index, $\frac{\text{amount raised locally}}{\text{taxable resources}}$, that is, the tax rate for school purposes.

But what burden? If a distributive fund is to be used, the burden of the marginal district must be the burden toward which equalization is to be directed. That is to say, the burden of the desired school in the district in which the burden is least. Equalization is then accomplished by adding to the amount raised locally under this standard tax rate state money sufficient to make the

sum of the local money and the state money equal to the computed cost. Observe that no fixed state fund could be used. If the state fund were a true distributive fund, that is, a fixed sum, to be allocated in ratio to ability, there would be no equalization, since the cost of the citizenship school in the several districts would not be met unless the state fund were exactly equal to the requirements for the particular year in question.

In order to make the matter concrete, Table III is presented. The nine districts used are real, but the cost column is, of course,

TABLE III

MATCHING THE BURDEN OF THE MARGINAL DISTRICT

District	Cost	Unequalized Burden Measured as Tax Rate in Mills	Amount Raised Locally at One Mill	Required Equalizing Sum from the State
A	3,608.59	1.0	3,608.59	0.00
B	3,525.07	2.26	1,559.77	1,965.30
C	42,774.23	3.92	10,911.79	31,862.44
D	115,526.05	4.97	23,244.68	92,281.37
E	2,133.36	5.1	418.31	1,715.05
F	15,719.52	6.21	2,531.02	13,188.50
G	17,302.68	7.27	2,380.01	14,922.67
H	7,259.32	8.20	880.53	6,378.79
I	13,767.18	11.65	1,181.05	12,586.13

not the cost of equivalent and necessary citizenship schools in the several districts. Nevertheless, there might easily be nine districts in which just this would be true of the costs which here appear. The argument which the table illustrates would not be different if the costs were the actual costs of such standard schools. Of course, in any state system, there would be anywhere from several hundred to several thousand districts instead of nine, save in Delaware and in the states in which the county unit, so-called, has been developed.

A is evidently the marginal district.

Disregarding for the moment the assessment-ratio problem and the varying effects of a given rate on the tax base in districts

of different community types, the nine districts are now equalized. That is to say, equivalent and necessary citizenship schools are provided in all and the burden is equal, namely, 1 mill, or 0.001 per cent.

By Use of Taxing Power.—But the burden of the marginal district in this case, as it would be in most cases, is lighter than necessary. With the exception of a few districts which constitute special cases, most districts in any state can bear a heavier burden than is represented by a rate of 1 mill on true valuation. What burden shall then be selected?

A study might be made for the sake of ascertaining the maximum burden which any district ought to bear. Such a study would encounter all the perplexities enumerated in the preceding chapter under the head of differing community types, but still it might be done. Or the burden of the median district might be chosen. In the list of nine districts, this would be 5.1 mills. Now, there is no way in which state money can be so distributed as to increase burdens which are below the median and decrease those which are above, even if it were desirable to increase burdens merely for the sake of doing so. The same reasoning applies in the case of any burden other than the median, save the lowest or marginal burden alone. Evidently, then, the problem becomes one of laying state school taxes in such a manner as to collect money from all districts with burdens below the median, or other selected point, and pay it over to the districts with burdens above the median.

This could conceivably be done, but the state tax commissions would not hail the prospect with acclamation.

Determination of Real Burden.—All the foregoing is predicated on the assumption that tax rate, or the ratio $\frac{\text{cost}}{\text{aggregate valuation}}$ has the same economic meaning in all districts. But we know that it has not the same meaning. No two districts will show the same assessment ratio and no two will

show the same ratio of popular income, out of which taxes must be paid, to aggregate property valuation. No two will show the same proportion of public obligations other than schools. Hence to carry out this fundamental problem in equalization, it would be necessary to make such a detailed survey and analysis in all districts of all factors which determine ability to pay and hence actual burden as would make possible the proper mathematical weighting of the tax rates derived from the local assessment.

The Equalization Fund.—Further, we have left out of consideration the nature and sources of the state fund out of which equalizing grants are made. The issue cannot be overlooked, for certain kinds of funds reopen the whole question with an entirely new set of variables.

1. The state fund may be derived from general property taxes levied by the state and allocated to the several taxing districts to be assessed and collected. In that case, there is paid over to the state treasury tax money which is destined to return in varying proportions to the school districts. Evidently the equalizing effect of the state fund will be destroyed unless this new variable can be fitted into the same system as the two variables, cost of school required and burden as expressed by local tax rate.

2. The fund may be derived from income taxes, leaving the general property tax to local uses. In that case, the actual tax-paying ability of districts is levied upon and the effect is the same as in 1, with this difference: since the popular income in proportion to property valuations tends to be higher in the richer districts, money is taken from the rich and given to the poor. Nevertheless, the process is indeterminate, and, whatever else the result may be, it is not equalization.

3. The fund may be derived from corporation taxes. In so far as the stock of the corporations taxed is held outside the state, funds thus derived and distributed introduce no additional variable in the problem of equalization. The money is a sheer addition to what the districts raise locally. In so far as the stock is held within the state, the effect is the same as that of the state income tax.

4. The source of the equalization money may be the income from state school lands or invested school funds. In that case, no variable whatever is introduced and the equalization grants are additions to money locally raised.

Attitude of the Richer Districts.—I suppose that no equalization act was ever drafted, and no provisions for the support of schools of minimum standard quality throughout the state were ever adopted without leaving the richer districts to provide in addition such schools as they might desire. It seems unthinkable that it should be otherwise. And yet there ceases to be equalization in its most fundamental aspect, namely, equalization of opportunity, wherever the richer towns are left to utilize their abundance for the purpose of providing better schools than the other districts can provide. Further, the fundamental purpose of citizenship-training is at once lost sight of. The richer districts are left to operate as true municipal corporations for the maintenance of tax-supported private schools, and the fundamental and critical purpose of the State school in civilized society is forgotten. The districts deny their legal and constitutional character of minor civil divisions set up to carry out an essential state purpose and take upon themselves the character of quasi-republics sending ambassadors to a diplomatic congress erroneously called the legislature.

In brief, the use of an equalization fund as a permanent fiscal policy in the mature state necessarily implies that it is *the fiscal system* of the state so far as schools are concerned. It is not merely a method of aiding the poorer towns. It is a method of relating all districts in the state to each other and all to the common purpose of the state, or else it is nothing. If an equalization system has been properly worked out, so as presumably to take into account all the essential facts, and it subsequently appears that some of the richer districts are maintaining schools over and above what are necessary for all districts, the discovery is tantamount to a finding that not all the facts really were taken into account.

III

Is the Problem Soluble?—We have thus discussed the fundamental problem, quite independently of numerous devices which have been written into the statute books of the various states, and we ought to be in a position to answer the fundamental question, which, I take it, is: Can moneys in the possession of the state government be so distributed among districts of varying fiscal ability as to establish everywhere equivalent schools capable of carrying out the essential purpose of adequately educating and training the childhood and youth of the state, and at the same time be so distributed as to make the burden of taxation equal in all districts?

I shall recapitulate the conditions which must be met and leave the reader to draw his own conclusions. Let us bear in mind that the issue presupposes a legislative and judicial solution and not an executive and administrative solution. That is to say, it presupposes that a statute will be drafted to be applied by some officer in the state government acting in a ministerial capacity, subject to interpretation and control by the courts in the process of litigation.

1. The citizenship school must be defined, not in terms of the adventitious divisions of the school system, such as elementary school, high school, and so on, nor in terms of the presumed characteristics of a good school, but in terms of identifiable educational objectives. The definition thus arrived at must be written into the statute.

2. The local cost of maintaining such a citizenship school in each of the hundreds or thousands of districts must be found, and indices must be derived which are capable of valid mathematical use in a formula of distribution, to be prescribed in the statute.

3. The true valuation of all property against which taxes are assessed must be determined for each district, in itself a practically impossible task unless reliance is to be placed upon a consensus of local guesses. Recall that no assessment ratio usa-

ble in a mathematical formula can be found unless the true valuation for all districts is first determined. Further, this is the most critical administrative issue. Experience has amply shown that unless the assessment ratio is controlled, the local valuations will tend to be lowered in order to draw more state money.

4. The ratio of popular income to true valuation in each district must be found, and a further set of indices be worked out. Unless this be accurately done, it is futile even to talk about equalization of burden.

5. The ratio of school obligations in the local community to other civic obligations must be found and again the proper indices for weighting purposes arrived at. When the tax rate for school purposes is nearly the whole local rate, the burden to be carried is evidently a thing very different from what it is when the cost of schools entails but a third or a fifth of the total local obligations.

6. Unless state revenue can be found which does not rest either directly or indirectly on the same bases upon which the districts lay taxes, a formula must be developed which will not only allocate money to the several districts in proportion to the local burden occasioned by the standard schools required, but will also make due allowance for what each district contributes to the equalizing fund.

Finally, all the foregoing must be restudied every year, or at least every few years. To return to the contrast drawn in the last chapter, the state is not a chemical compound of which the districts are constituent elements, and the various indices which might be worked out for each district are not after the analogy of atomic weights, electron systems, and the like. There is nothing like what the physical scientist knows as the fixed order of Nature present in the problem. Not only is a different order of thinking required, but a different kind of thinking as well. All the factors entering the problem shift in place and change in value as the economic and social circumstances of hundreds of local districts themselves shift and change. A permanent system

such as is implied by the equalizing effect of a distributive state fund would require an elaborate state force of school men and lawyers, accountants and economists and field sociologists continuously at work gathering data for amended statutes at every legislative session. It would amount to an extremely clumsy and bureaucratic centralized administrative organization. Failing such a continuous survey and adjustment, a new set of inequalities would be disclosed whenever students might become interested in studying the old problem anew.

IV

Equalization by District Evolution.—We turn, then, to a different kind of equalization, one which has gone forward in the past very much in response to changing circumstances and is still going on.

In our study of inequalities, we canvassed the different types of school district and noted some of the results which have come about in the course of evolution. Now, nearly all the departures from the prevailing original type of frontier district have been largely dictated by (*a*) fiscal stress and (*b*) a strong tendency toward administrative equalization within community or regional limits, as distinguished from legislative and judicial equalization. By fiscal stress, because the frontier district is seldom large enough to afford a tax base which will support schools of adequate modern scope. By tendencies toward administrative equalization, because the local community interests tend to make patently absurd more than one district in a community. Hence, in succession: the city district, the independent or union district, the town or township district, the community and consolidated districts, the county district, or county unit. A brief consideration will make clear what has happened.

The city district is perhaps the best illustration. At one time, many, if not most, cities which had in their growth spread over several of the frontier districts were divided into districts. Within the same urban community were districts which were to all intents and purposes as independent of each other as if the city as

such did not exist. Theoretically, and often in fact, each of these subdivisions raised its own funds, elected its own officers, managed its own schools. Now, it is clear that if such a situation were to continue, even the smaller cities would presently come to have within themselves the same type of inequalities which the states exhibit today. The city of Chicago might easily have fifty districts as it has fifty wards. Some of these districts would be in well-to-do residential sections with high valuations and a moderate number of children; others would be in swarming slum sections with low valuations; some would linger in the business section with high valuations and few children or none at all. The first type could easily maintain excellent schools. The second would probably be overtaxed if it maintained any schools at all. The third could, if it would, maintain elaborate schools and yet be unable to spend more than a fraction of its available revenues.

The city is rare, indeed, whose people could contemplate any such situation and consider it other than an absurdity, though, in fact, it would be no more of an absurdity than exists still in most of the forty-eight states. But the people of a city could think as a city, while it is still hard for the people of most of the states to think as states. Hence the city district came to exist. Localism grew out of ward lines at least. All the resources of the city were made available for the schooling of all the children of the city. Further, there are few cities, indeed, in which the kind of schools provided to different sections depend upon *representation* from the several sections. Finally, the poorer sections of practically all cities get better schools than the inhabitants of those sections either could or would vote.

The city district has thus acted as a device for equalizing schools throughout the local community. The board of education is expected to provide the schools which are needed in all parts of the city regardless of regional resources, and it is legally able to do so. The futile task of defining need in an inflexible section of the city charter is not even thought of. The board is required to exercise judgment and is held politically responsible to

the electorate for the exercise of good judgment. It may require the services of experts in determining the facts upon which judgment is based, and it commonly does so. Equalization has been brought about by making it an administrative matter in the hands of an administrative board, rather than a legislative matter to be determined by a statute and interpreted by the courts. It would be a hardy theorist, indeed, who would claim that the city district is a guaranty of good schools. The city as a whole may be financially weak; it may be politically corrupt; its board of education may be inept and its school people professionally incompetent—but the problem of equal and fair opportunity for all its children is a soluble one. The best of our American city districts are beyond all praise for what they have done through their schools for their children, but not one of them could have accomplished what it has, had it continued to be what many of the older cities once were, a congeries of small districts.

The same or a similar process has been at work in the evolution of the township and later the county district out of the frontier district, and the same result has necessarily followed, namely, administrative equalization within the township or the county.

When we turn to another line of district development, that which has produced the community districts in Illinois, the consolidated school district in many of the states, and various forms of high-school district, we find a clearer case of evolution under fiscal stress. In most of these forms, the larger district is essentially a territorially broader tax base which has been sought for the purpose of making good schools possible, but any such expansion of the tax base implies the consolidation of many frontier districts, and occasionally of several township districts, into a single larger fiscal and administrative unit. The result which we have found in the city district follows of necessity: administrative equalization throughout the area at once takes place. The taxation of individuals may be unequal, as it often is in the city districts, but that is the fault of the tax system in use and of its administration. Equivalent, or the same, schools are furnished

to all pupils as needs are understood and such as the financial resources of the single large district make possible.

V

Effect on Range of Inequality within the State.—So much for equalization within the enlarged districts. An almost equally significant result follows touching the range of inequalities within the state as the districts expand.

Reeves, in his Illinois study,[3] found that the range in assessed valuation per school child between frontier districts containing 50 or more children of school age was as 1 to 53. On a similar comparison of 144 townships for the same area, he found a range of 1 to 19. Continuing, he instituted a similar comparison between 102 counties and found a range of 1 to 6. Now, Reeves was obliged to use assessed valuations as a basis of comparison. The results might have been somewhat different if he had used true valuations, but the probability is that the ranges would have been greater rather than less. If he had been able to use data for all the townships and all the frontier districts in the state, the ranges for the smaller districts and for the townships, respectively, would probably have been somewhat greater. They could not have been less. As to the counties, he used them all.

Can we generalize from these findings? Despite the fact that we are using but one state and a limited number of cases within the state, I think we can generalize, for we can explain the facts reported.

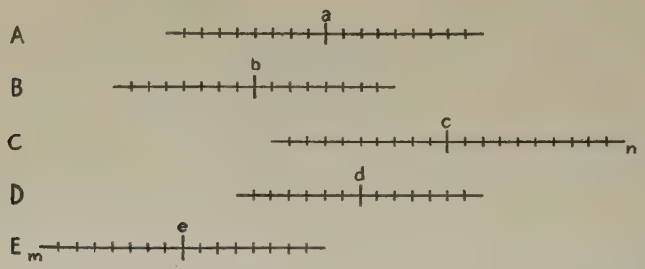
In the first place, let us recall the community types discussed in chapter viii.[4] Now, the smaller the district, the more it will tend to conform to a single community type. Hence the range between small districts will tend to represent the extremes of ability in a single type. The township, on the other hand, tends to include at least two community types and the county several. The effect is to narrow the range as the larger district develops,

[3] Reeves, *The Political Unit of School Finance in Illinois* (1924), pp. 133 ff.

[4] See p. 180.

for much the same reason which makes communities which rest on diversified industries commercially more stable than those which rest on a single industry.

On the other hand, the mere statistical behavior means that the range will be steadily lessened as the district grows larger. The effect can perhaps be more clearly seen with the aid of the accompanying diagram.



Let *A*, *B*, *C*, *D*, and *E* represent townships each containing several districts. The small districts are represented by the line sections and are arranged from left to right in order of ability. Evidently, the range in ability of all the frontier districts is from *m* to *n*. Now, the aggregate valuation per school child of each of the townships can be thought of as concentrated at the mid-points, *a*, *b*, *c*, *d*, and *e*. The range is from *e* to *c*. Of course, if all the townships of the state happened to be so arranged that there was no overlapping in the abilities of the original frontier districts within the several townships, the argument would not hold; the range of township-district ability would be nearly as great as that of frontier-district ability. But no such condition exists, there always is overlapping, and the illustration holds for a comparison of the ranges of townships and counties.

VI

The County Unit.—Thus, the states which are developing the county unit are proceeding in the normal line of evolution, a process which began with the creation of the city district and with the substitution of the township type of district in New Eng-

land for the frontier type in the last quarter of the nineteenth century. In brief, they are tending toward executive and administrative equalization instead of attempting the impossible task of equalization by legislative and judicial process through the use of equalization funds. The true county unit, however, does not exist in the full sense until the county has become the full successor of the frontier or township district. When that point has been reached, the county board of education provides schools as they are needed to achieve the purpose of citizenship-schooling throughout the county, and taxes are laid upon the taxables of the county without regard to former district lines. In such cases, there are no district trustees or local control of any sort, for the county has become the administrative as well as the fiscal unit. In other words, the county district in principle has become assimilated to the city district form. Several comments are, however, called for.

The County as District.—In the first place, the county is still a civil division set up for the carrying out of a state purpose. It of course depends for its existence upon statutory enactment, and like all districts it must be administered in accordance with the statutes which regulate the rights and obligations of citizens. The latter are no part of the executive functions of the county board any more than they formerly were of the local boards, or any more than they would be of the state board if the state were made the administrative and fiscal unit. Such matters as compulsory attendance, the rights of children to schooling, the obligations of parents with respect to schooling are civil rights and obligations and not administrative concerns, save as they imply enforcement.

Incomplete Forms.—It is sometimes thought that a county system is in operation when taxes are extended and collected by county officers and an officer known as the county superintendent exercises inspectorial, ministerial, and quasi-judicial functions, while actual administrative functions are performed by or under local district boards. Of course, this arrangement

does not constitute a county unit any more than the existence of a state board of education or a superintendent of public instruction constitutes a state unit. The political unit is still the local district.

A long step in the direction of the true county unit is taken when the local district boards are still retained for the appointment of teachers and sundry local regulations, while the statute prescribes the schools which shall be maintained and gives the county board enforcing powers to the extent of overriding the local district boards; and all schools are paid for from the proceeds of county taxation regardless of local district resources.

This arrangement marks a stage in which fiscal evolution has outrun political evolution. There are still local people who desire to have a "finger in the pie," and the public in general has become only in part county-minded rather than local-minded. In due season, local activities will be given up altogether as superfluous.

The Independent District within the County.—In some county-unit systems, and in bills proposed for the establishment of the county unit, certain city districts or independent districts are left out of the county organization and continue their local district status. There are doubtless present in such cases sundry motives of practical political expediency, but, be that as it may, under the prevailing system of property taxation, there is at least one good reason in principle why this should be done.

If the reader will recall the discussion of community types in chapter viii, he will note that the proportion of popular income to property valuation tends to be higher in the urban types of communities than in the rural township. A given tax rate, therefore, tends to be less burdensome in the urban type, for there is relatively more money to pay taxes with. On the other hand, there are always more voters in a given area in the city than in the country. Hence, while it is by no means true that city residents in any county can always outvote the rural people, it is

true of some counties, and in rural counties in which there are urban communities of considerable size, the city population forms a formidable voting bloc. Now, when the amount of taxes to be levied for schools is determined either by popular vote or by a board which is popularly elected, the city population in a given county tends to overtax the farmers.[5] The segregation of urban communities in a county-unit plan is therefore strictly in accordance with the principle of differences in community type, save when an income tax is the basis of revenue.

Nevertheless, the issue is a problem in taxation and not one in political structure. Apart from this interference of an incongruous system of taxation, there is no reason why the county board should not administer and support the schools of the cities as it does the rural schools. As we have seen, the large metropolitan cities are a case by themselves in any system.

VII

Subventions.—Now, in the whole matter of the distribution of state money to minor civil divisions, there are two distinct purposes.

In the first place, there is the purpose of encouraging and helping the minor divisions to carry on work which the central government thinks ought to be carried on for the benefit of society in general. The method is grants of public money which are technically known as "subventions." If the subvention is granted under a proviso that the local government shall raise a specified sum, then the subvention is called a "grant-in-aid." Grants-in-aid are subventions, but not all subventions are grants-in-aid.

The second purpose is the equalization which we have been studying. Equalization acts are largely, if not wholly, limited to school support for the very good reason that the school district has a peculiar place in our political structure and purpose. An

[5] For detailed study and analysis, see Althaus, *Distribution of the Tax Burden of Township and Community High Schools in Illinois* (1927).

equalization act has the specific purpose which its name implies. It is not a subvention. The two purposes are, as we have seen, mutually incompatible.

During a period of nearly seventy years, counting from the first Morrill Act setting up federal grants in favor of training in agriculture and the mechanic arts, both the federal government and the state governments have made large use of the principle of subventions. State aid for high schools, for vocational training, for physical education, for better school buildings, and a variety of other purposes are all examples. In the early days of the good-roads movement, our method was largely that of state and, later, federal subvention. The powerful demand, however, which followed the advent of the automobile and rapid extension of its use soon forced abandonment of the subvention system in the form of state aid to townships and counties, in favor of state-highway systems, financed out of state revenues, laid out, constructed, and maintained under the direction of state-highway departments.

An Immature Policy.—The essential purpose of subventions, then, is not equalization, neither equalization of opportunity nor fiscal equalization. It is rather the encouragement of local districts to undertake what they would not otherwise undertake for the achievement of some purpose in public education which the state government thinks ought to be achieved.

Like state aid to poorer towns, the subvention policy at its best is the mark of a political structure in the state—for the general purpose to which the subvention is applied, public education, for instance—which is immature or outgrown. It amounts to bribery of the people of minor civil divisions to do what they would not do for themselves, or else to help them to do for a state purpose what they could not do unaided.

At its worst, it is a method by which organized minorities can achieve their purposes—purposes which are sometimes well intentioned, sometimes purely selfish, usually ill considered, and always irresponsible. Better or worse, evils are prone to follow in the train of a subvention system.

1. In the nature of the case, a subvention system is a fiscal patchwork. It attacks a large problem piecemeal with no likelihood that the problem will be comprehended as a whole and put in the way of coherent solution.

2. Little by little the people are led to think of the state or the federal government as a source of supplies, rather than to rise into acute consciousness of themselves as a responsible state and nation.

3. A subvention system implies either authorizing local districts to spend at will state or federal gratuities, or else the fussy inquisitorial ways of a bureaucracy. A bureaucratic form of administration arises whenever a minor civil division such as a school district is endowed with power to manage its own affairs and the latter are then made subject to inspectorial check by the officers of a superior civil division. In the ordinary affairs of private business, the responsible subordinate who is thus checked up by a superior meets the situation by the exasperated ultimatum, "If you are not satisfied with my work, do it yourself." The postal system is administered outright by the federal government, and, whatever deficiencies may be alleged, the post-office is never bureaucratic. A city-school system is administered by the superintendent of schools under the control of the board of education. The administration may be inefficient, but it is not bureaucratic. The executive in whom resides the power to "hire and fire," that is, executive responsibility, may become autocratic and tyrannical, but he cannot become bureaucratic. The officer who is endowed with power to inspect and check, but not with the power to correct and amend, is prone to become bureaucratic.

The recent evolution of our state-highway systems, referred to in the foregoing, clearly points the way in which the remedy lies. If a given public undertaking is in its nature a state problem, then the state government should itself provide for, finance, and administer the undertaking. If it is essentially local in its nature, then the state should leave it alone altogether. Similarly, we ought to authorize the federal government to take over enter-

prises which have necessarily become federal in scope and forbid it to meddle with others.

VIII

End of the Road.—Our extended analysis of the nature of the state school as a civil institution, of its economic and financial foundations, of the requirements of a modern system of taxation, of the consequences of a fiscal and political structure founded on the school district in its various territorial forms, leads us unerringly to the conclusion that the several states themselves are the appropriate fiscal and administrative units in the support and conduct of the citizenship school which has long been held to be the cornerstone of our polity as a self-governing State. The evidence is not so clear that the great metropolitan cities, in states in which one such city constitutes a large proportion of the total population, can be advantageously included in a state unit. But this is only to note in passing a current perplexing problem, which concerns not public education alone, but most other problems which are essentially civil in character and not municipal.

A corroborative piece of evidence is found in the evolution of the school district itself, under the pressure of circumstances which brook no denial. As we have seen, the characteristic evolutionary responses here are: (*a*) consolidation of districts which are obvious parts of the same community; and (*b*) the territorial expansion of the district such that a broader tax base is established and more diversified economic types are included. Thus, the city, township, consolidated and community districts have succeeded the frontier districts, and the county district, a larger territorial unit than the township, is appearing. The end of the process is clear, for there is no reason whatever which justifies the county unit of the advanced type found in Maryland and Utah which would not justify the state unit. Nor in essence is there any argument which justifies the city district which would not justify the state as a similar fiscal and administrative unit. The issue is, however, beclouded here by persistent failure

to distinguish clearly between the city as a true municipal corporation and the city as a minor civil division and school district.

Delaware and New Hampshire.—Many of the states, whether the people realize it or not, are steadily evolving in the direction of the disappearance of the school district fiscal and administrative structure. Conspicuous in the process are, as we have already noted, Delaware and New Hampshire.

In Delaware, save for the city of Wilmington, the cost of schools is borne by the state regardless of local fiscal capacity. The type and quality of school to be maintained locally is prescribed by the statutes and the state board of education is empowered to enforce the statutes, not through the process of litigation, but by direct administrative action. The local boards are left, but, in case of failure on their part, the state board may intervene, maintain the required schools, and of course pay for them. The duty of the state board is thus not inspectorial merely but amendatory. The state school revenue is derived from income taxation. Each district provides fixed capital from local resources.

In New Hampshire, the frontier district disappeared in 1885 in favor of the township district. After a quarter-century of experimenting with equalization devices, the following organization was set up.

The township-district is retained throughout from the largest city to the smallest country town. Each district lays a tax of 3½ mills on property presumed to be assessed at full value under the supervision of the state tax commission. Every district is required to maintain schools at a standard fixed by the state board of education, and all schools are supervised by professional superintendents whom the state board of education may remove by revoking their licenses. If the local revenue under the 3½-mill tax is sufficient for local requirements, well and good. If it is insufficient, the state contributes whatever may be needed to maintain standard schools as determined by state investigation. If it is more than sufficient, the balance is paid into the state school

money. The state revenue is derived in part from general property taxes allocated to the several towns and cities for levy and collection, in part from corporation and other general state taxes, in part from income taxes laid upon the income from intangibles. Each district provides its own fixed capital, and each may carry on schools in advance of state requirements. Evidently, New Hampshire still disregards the varying burden of property taxation on different types of communities and relies upon the general property tax, but she has provided for definition of her citizenship school and has laid aside attempts to equalize through the ministerial application of a statutory formula.

In each of these states, there remains but a short distance to be traversed on the road which leads to full maturity as a state fiscal and administrative unit. Clearly, Delaware is about two full stages farther along the road than is New Hampshire. Other states, notably Maryland, Utah, and Virginia, are approaching the goal via the county unit. In due season, the support will probably be derived wholly from income taxation, the local districts will disappear, and the state will provide schools through the administrative instrumentality of the state education office as they are needed and where they are needed, including necessary fixed capital, precisely as do cities, some of which in population are larger than most of the states.

Does the Process Point toward a National System?—One cannot avoid the question, Does the evolutionary process at work imply an ultimate national unit as clearly as it implies a county or state unit?

As lawyers would say, the question is at present irrelevant and incompetent. The Constitution leaves the conduct of public schools to the several states. The state constitutions do not leave it to the local districts; but on the contrary the courts have with substantial unanimity expressly held that public education is a state, and not a local, concern.

Nevertheless, constitutions are subject to amendment. Is there any ground for thinking, as a matter of principle, that pub-

lic schooling is a national matter rather than a state concern? Two considerations point clearly in that direction.

In the first place, we live under a regional economy which is national in scope and is not confined within the limits of the several commonwealths. Our currency is national, and our banking system is fundamentally national. Production, consumption, and distribution increasingly ignore state and even regional lines. Our tariff controls foreign competition, but not interstate competition. Title to property and investment in the securities of productive enterprises are not determined by the domicile or legal residence of persons. The most vexatious problems left for those who would draft sound and equitable tax laws, and administer the process of taxation, are those which center about conflicting state jurisdictions.

In the second place, we live as truly under the federal government as under state governments. The president and vice-president and members of Congress are elected by the people of the several states. Hence, the people of a state which can and will consistently maintain good schools year after year may well be defrauded in part of the fruits of their wisdom and diligence by the ignorance and folly of the federal electorate in states which either cannot or will not effectively concern themselves with the schooling of future citizens. On the other hand, in most of the concerns which affect the daily life, we depend to a much greater extent on good state government than upon good federal government. The people of a state, for instance, which suffers crime to run rampant endure the consequences much more acutely than do those of a remote state which insists on law and order.

Whatever may be the force of the preceding paragraphs, the fact remains that the problems of public schooling are state problems before they are federal problems. We could wish that we knew more about the comparative fiscal economics of the states, at least as far as the support of public schools is concerned. If amendment of the Constitution should at some time in the future

seem expedient, it should assuredly be done in the light of more positive knowedge than is yet available.

The conclusions thus reached are so contrary to the settled habits of thinking of our people that some further discussion of the state as the unit is required. We ought, if possible, to form to ourselves some justifiable picture of what such a fiscal and administrative system might imply.

READING REFERENCES

While the literature dealing with inequalities is voluminous, that which is the result of recent scientific study of equalization is rather limited. The reports listed here, all of them directly or indirectly the product of researches made at Teachers College, Columbia University, represent the current period of investigation of the problem and perhaps carry the analysis as far as it is capable of being carried, granted the assumption that state school systems are to be financed through civil divisions acting as agents of the states, and that fiscal administration is to continue to be conceived as a legislative and judicial process.

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CHAPTER X

THE STATE AS FISCAL AND ADMINISTRATIVE UNIT

The convictions of our people in the past have undoubtedly tended in the direction of the local control and support of most public enterprises, at least of those which touch the individual citizen most intimately. It is equally true that the habit is showing signs of breaking up. A comparison of the vote cast at ordinary local elections with that cast at state and national elections will usually yield convincing evidence that the electorate as a whole is at least more acutely aware of state and federal matters than of local interests. The success with which local demagogues import even the most irrelevant federal issues, such as membership in the League of Nations or the World Court, into purely municipal campaigns, is evidence in the same direction. Militant idealists who have recipes for improving society descend with unerring accuracy upon Washington or the state capital, even when their schemes are purely municipal in character. Publicists deplore the trend. In truth, was the habit of thinking ever anything more than habit? Or was it founded on some principle essential to our form of government? Is there really anything to deplore? Is the trend toward the larger school district *evolution,* or ill-considered *revolution?* To find some sort of an answer to these questions is the purpose of this chapter.

I

Federal, State, and Municipal Obligations.—On the other hand, a curious and almost invariable response to proposals to raise money for state and federal purposes is the vigorous objection, That would tax our city or our state or our group of states for the benefit of rural sections or other states. Hence the perennial conflict between the city and upstate in New York and be-

tween Chicago and downstate in Illinois. Hence the bitter opposition of powerful interests in the northeastern industrial and commercial states to the federal income tax, and of the cities to state income taxes anywhere. Despite the evident general social purpose of the public school system, proposals to make state appropriations to help the poorer towns have very generally met opposition from the cities for the same reason; and when the city representatives in the state legislature acquiesce, they not infrequently assimilate their consent to charitable generosity. And yet the same people who oppose such legislation, on the ground which has been stated, will often rush off to Washington to secure federal appropriations in furtherance of purposes which are dear to them, regardless of the import of their purposes.

The objection to taxation for purposes which are in principle and reality state or national, merely because certain taxables have become concentrated in cities or in a few states, is, of course, equivalent to an objection on the part of rich families to be taxed on their ability to pay taxes, lest they should thereby be made to carry the burdens of other people. The point is fundamental in the whole theory of the individual's relation to civil society. Many have been the theories which have attempted to explain and justify the individual's obligations to pay taxes on other grounds than his ability to pay. They have all broken down. As Professor Seligman lucidly and cogently argues in his *Essays in Taxation,* the ability test is inherent in the structure of society itself. The individual owes according to his ability, simply because he is in and of society and his social relations are a part of him. In no different sense than the unselfish individual in the family feels his obligations to the family life to be in proportion to his ability and not in proportion to some benefit the family life confers on him. In no different sense, again, than the ancient clansman and the modern soldier have felt their respective obligations to the common military endeavor to be in accordance with prowess or courage.

Hence, when the purpose for which taxes are raised is in

principle a national purpose, the obligation rests upon taxables wherever they are located. Even though the entire body of taxables were concentrated in New York, Pennsylvania, Ohio, and Illinois, the obligation upon citizens of those states would be in no whit different in principle than it would be if the taxables were distributed throughout the nation, strictly in proportion to population. Conversely, when Congress is asked to appropriate money for purposes which are in no sense either federal or national, it is asked to make an unjust use of its taxing power and the injustice falls with special weight on the states in which the taxables are most heavily concentrated.

When the purpose is inherently a state purpose, as is the case with public schools, it matters not where the taxables are concentrated, assuming that no uneconomic use of the taxing power is made. Even though 90 per cent of the taxables are in a single city, the obligation rests as heavily on the taxpayers of that city as local obligations which are related to municipal purposes pure and simple.

On the other hand, when the state legislature makes appropriations for purely municipal purposes, such, for instance, as providing a given corporate municipality with a water-works system or a public park, it uses its taxing power unjustly and perhaps corruptly. If such a municipality is unable to furnish itself with water, or its people are unable to secure proper recreation, the facts constitute good evidence that the municipality has no excuse for being. Of course, the argument cannot be extended to apply to the relief of cases of great public calamity, nor need it be, for such are the concern of society in general.

In truth, the test faces upon the character of the service to be rendered, whether it is in its nature national, state, or municipal. Municipal, not local, for many local services are essentially national or state in character, for example, the local post-office and the local public-school system.

Apparently, we are passing through a period in which we are growing away from the conditions of frontier life and into those

of a mature State. Our thinking lags behind economic, political, and general social development.

II

Growing up to the Constitution.—The Constitution of the United States in the beginning represented the application of precisely the test mentioned in the foregoing. Thirteen colonies had worked out social and political systems which, despite their common background, differed materially among themselves. In general, civil rights and obligations had been worked out, but either the colonies separately or a confederation of the colonies inherently lacked certain sovereign capacities without which the confederation could not exist as a nation. The Constitutional Convention was no doubt a forum in which men who represented different systems were obliged to thresh out their differences, but the result was a federal republic in which only those powers were committed to the United States which experience had shown to be essentially national in character. More than ninety years were required to apply the test, but in the end the decision was worked out.

In so far as we have experienced unhappy results of the acts of the federal government, they seem to be traceable in large part to failure to recognize and apply the original test.

Applying the Federal Test.—Of course the test centered largely upon slavery and we are only just beginning to view that issue dispassionately. No doubt slavery was a great moral wrong and economically disastrous in the extreme, but even so it was originally an issue for the states. It emerged as an inescapable national problem in Lincoln's clear analysis, which held that the nation could not endure half-slave and half-free. Thus the test was applied, and in the end the Thirteenth Amendment was the result.

Even so vital a matter as the electoral franchise was originally viewed as being primarily a state matter, as it in principle still is. If Rhode Island long applied a property qualification, her

system had no effect on Ohio and only a very remote effect on the quality of the federal government. If a minority did not like the Rhode Island theory, they might move to another state. If others preferred the Rhode Island system, they were free to become citizens of that state. When Wyoming and Colorado admitted women to the franchise, New York and Massachusetts were in no way concerned, nor was the quality of the federal government affected. In due season, experimentation convinced most of the states on the point at issue. The Nineteenth Amendment was wholly out of keeping with the fundamentals of our polity, as was likewise the Fifteenth. If the latter had never been adopted, it is altogether probable that the colored race would today be much more firmly settled in its electoral privileges, and it is hard to doubt that the darkest chapter in our national history would never have been written. Conversely, if at some time in the future an amendment imposing an educational qualification for the franchise in the case of the elective federal officers should be proposed, the proposal would be strictly in accordance with the principles of the federal union of states, since it must be contended that the quality of the federal government is thereby involved.[1]

Such is the argument running through the whole course of the interrelationships of the states and the federal state. It is elementary and clear, despite the fact that application to specific instances may be doubtful.

THE INDIVIDUAL STATE.—So prominent is Washington in the focus of attention, largely on account of the news value of doings at the national capital, that we forget how much of our lives is for better or worse passed under the aegis of state sovereignty. Thus is property held, devised, and inherited; security of life and limb guaranteed; family relationships established and confirmed; the public health protected; education provided for; the larger part of justice administered; convenient intercommu-

[1] For an extended exposition of the whole matter, see Judson, *Our Federal Republic* (1925).

nication on the highways provided for; the care of the poor and the defective classes looked after. In so far as there is failure in any of these functions, it is state failure and neither federal or municipal failure. If failure occurs through the local agencies of the state, then there has been failure to set up and control appropriate local agencies, or else the delegation of authority which ought not to be delegated.

III

Minor Civil Divisions a Different Matter.—No such relationship exists between the state and its counties, parishes, towns, townships, and cities. People frequently talk as if the township or city, the county, the state, and the United States were simply a graded series of governments. The extent to which the phrase "state law" has found its way into common usage is suggestive of the growth of popular ignorance on this point. There is no other law than state law and federal law. The English writer, Hugh Dalton, in his lectures on public finance, speaks of the "various grades of government in the hierarchy of a Federal Constitution." There is no such hierarchy, at least in the United States. The federal union of states is something inherent in our form of Civil State. We could not change it without becoming another kind of State, one like Great Britain or Italy or France, for instance, without the monarchical feature found in the first two. So evidently was our federal republic rather the discovery of a political principle than a formulated plan that, despite important differences in detail, the same general structure has come to prevail in Switzerland, the German Reich, the Dominion of Canada, the Commonwealth of Australia, and the British Commonwealth of Nations.

County and Township.—The county, the township, and the school district are, however, quite different things, and the incorporated city or town or village is different from any of them. The county and the civil township are agencies which were set up to apply government and to administer civil functions—such as the maintenance of order, the administration of justice, the

recording of transfers of property, the regulation of marriage and provision for minors, the proving of wills, the care of the poor and insane and defectives, the maintenance of highways as distinguished from city streets. All of these functions are fundamental concerns of civilized society in general; they are not concerns of the local *community* which happens to be related to the civil division in question. In fact, it is by no means true that the local township corresponds to any community whatever, for the township in essence is not a community save by accident. The community organization may run over into the next township or even into the next state. The county, of course, normally embraces several communities, and some of them may hang over the county lines. Counties and civil townships are creatures of the state; communities are products of natural geographical law.

Now, unlike the states and the federal union, counties and townships could be abolished altogether, if it were deemed expedient, without in any way altering our form of government. Sometimes cherished as instances of local self-government, they are in reality nothing of the sort but only convenient methods of administering government which have come down to us from times when communication was difficult and tedious. The aura of self-government which has come to surround them is unfortunate rather than otherwise, for it tends powerfully to create the notion that law and order and other intimate concerns of society are matters of local option. And if local option, then individual choice. These minor civil divisions are still convenient for some purposes, and for other purposes their functions have for a long time been in process of transfer to the several states.

In the older states, the county judge is but a memory and not even that for people who are not antiquarians. All that remains of this ancient county function is a court house and jail maintained by county taxation.

State constabularies of trained and disciplined men are slowly emerging and overlapping old-time Dogberry, the picturesque sheriff and posse, and even the casual and confident cop.

It is a backwood state, indeed, which tolerates county or township care of the insane. The long horror associated with that chapter in our history proved too much for a humanitarian age. The analogous care of the feeble-minded has tended to be a state function from the beginning. So has the care of consumptives.

Homes for the destitute, once the despicable choice perquisite of township politicians, are tending to become county functions.

The highways, once jealously guarded township and even subtownship privileges, are, as we have seen, more and more becoming purely state concerns.

THE SCHOOL DISTRICT.—The school district needs no further elucidation at this point. It is like the county and the civil township in that it is an agency set up to carry out a state function. It is unlike them in that its functions are narrowly limited to a single purpose, which the several states have never been willing to consolidate with other functions.

THE CITY AND INCORPORATED VILLAGE.—The chartered city, again, is a wholly different kind of political entity. So is an incorporated village. So, in some of its aspects, is the incorporated town. These are true *local communities*. As communities, they were not created by the states, but came into existence in response to circumstances which induce people to settle their homes and productive enterprises at particular localities. As communities, they frequently overlap state lines, and there is no reason whatever in principle why such a local community should not become a municipality through joint action of the two states. As local communities these municipal corporations come to have a multitude of concerns which are theirs alone, municipal affairs rather than civil affairs. The inhabitants are still citizens of the state and of the United States and as such amenable to laws which affect society in general. We call ourselves loosely "citizens" of Boston or Chicago or of St. Louis, Syracuse, Dayton, or Spokane. In reality, we are nothing of the sort but rather citizens

of Massachusetts, Illinois, Missouri, New York, Ohio, or Washington. If the distinction which is sometimes found in European practice were in force, we should perhaps call ourselves "burgesses" or "burghers" of the cities. Whether we make any such distinction or not, the distinction is there.

In due season, the state grants a charter to the city, or a local community comes to be organized under the general law. A true municipal corporation results, endowed with power to manage its own affairs, subject to the civil rights and obligations of its inhabitants. Thus does true local self-government come to be. What are its own affairs? The test is that which we discussed in chapter iv,[2] namely, those affairs the proper management of which redounds to the advantage of the city and neglect of which injures no other community.

Inconsistent Meddling by State Government.—Curiously enough, the several state governments have been as persistent in meddling with what are in reality purely local municipal concerns as they have been fatuous in leaving to local caprice matters which affect the people of the state as a whole. The fault has been especially notable with respect to purely municipal franchises, like those for street railways, and limits imposed for purely municipal taxation. Cities are not likely to learn to manage their own affairs when wealthy, capable, and responsible members of the community can rush off to the state capital and invoke the aid of unconcerned legislators from other local communities to thwart vicious local purposes or to achieve commendable local ends. If the state refused to meddle, these people would be obliged to stay at home and lend their weight and ability to the proper management of municipal affairs. Whenever it is possible for good citizens thus to escape their municipal obligations, it is equally possible for bad citizens to accomplish their nefarious purposes through the state legislature.

The City as Civil Division.—Not infrequently, the chartered city or the incorporated village or town is used as a minor

[2] See p. 89.

civil division for the same purposes for which the county or civil township is used, that is to say, purposes which are general and not municipal in character. The result is apt to be disastrous, for the inhabitant of the city cannot feel the same responsibility, either fiscally or politically, for concerns which are everybody's business as for those which are peculiarly city business; or else they inevitably tend to convert civil interests into purely municipal interests. The contrast in efficiency between city fire departments and the city constabulary is a case in point. The similar contrast within a city police force between the same body of men enforcing the law and acting as traffic officers is another example. Fire protection and the regulation of traffic are purely local affairs; they concern other cities remotely if at all. The enforcement of the law and the administration of justice affect the people of the city not otherwise than they affect people in general. They concern the people as citizens but not as community indwellers.

IV

Overtaxation a Local Affair.—Our fiscal history presents some strange anomalies. Excess of revenue seems like a contradiction in terms, and yet excess of federal revenue has more than once created serious problems. The federal system requires flexibility far beyond that of the state and municipal systems, largely because the cost of warfare creates sudden and great emergencies, but its capacity to liquidate even the staggering debts of the Civil War and the World War has proved amazing. In times of peace, the federal burden is carried very easily indeed, especially when the government practices restraint with respect to expenditures which are neither federal nor national in character.

Similarly, the states in ordinary times and under prudent management are for the most part in easy circumstances.

Local government, however, and especially the school districts and the municipalities are chronically in trouble. Of the

aggregate expenditure, federal, state, and local, for 1926, 58 per cent[3] was local in origin.

Now a large factor in the purely municipal burden is undoubtedly extravagance, waste of various types, and mismanagement. These are, of course, curable locally, but even so the burden would still be heavy.

Law of Diminishing Returns.—Government expenditures in general, especially in congested centers, follow an accelerated rate of increase as the population increases.

> Public finance has a clear teaching on one vital point. It is distinctly in the evidence that, by and large, as now conducted, government business obeys the law of diminishing returns or increasing cost per person served. The larger the population served, the greater is the *per capita* cost. . . . . The highest government costs are generally to be found where population is densest.[4]

As both the writers cited here state, the principle, in part at least, rests upon the fact that people demand more, and demand is subject to restraint. Even with demand reduced to the actual requirements of civilized community existence, however, the principle would probably still be in force by reason of the inevitable costs which associations in community life engender.

Nevertheless, diminishing returns as expressed by increasing per capita costs of *population served* is quite a different thing from the behavior of unit costs of *work done* as the number of the latter under the same administration increases. The experience of industry is conclusive upon this point. There tends to be marked economy in doing things on a large scale, that is to say, in large administrative units.

Local Communities Are Charged with State Functions.—The overburdened condition of municipalities, and of the taxpayers in many minor civil divisions, is largely if not chiefly attributable to the fact that they carry on functions

[3] *Cost of Government in the United States* (National Industrial Conference Board).

[4] Plehn, *Introduction to Public Finance* (5th edition), p. 24. See also Lutz, *Public Finance*, p. 70.

which are properly state functions. The largest single expenditure which towns and cities are called upon to make is almost everywhere that which is devoted to the maintenance of public schools—in the law and in principle a state function. The cost of the local constabulary, while it is seldom anything like the cost of the public schools, is often so great that the municipality can neither maintain an adequate police force nor pay policemen sufficient salaries to get the best men and minimize the temptation to graft. The constabulary function is essentially civil and state in its nature, and not municipal and local. The case of highways here and always is most illuminating and instructive. Prior to the advent of state highway systems, thousands of townships especially were heavily overtaxed for the maintenance of highways. This town would have many miles of highway and a disproportionate number of bridges; that town would have but few miles and no bridges. The analogy between schools and highways is very close, for some towns have large enrolments and intrinsically difficult educational problems, while others have small enrolments and very simple problems. The highways were always in their nature state functions, but the people did not learn to distinguish between highways, byways, and city streets until the automobile forced them to learn.

Reasons for Economy of State Administration and Support.—Now, there are perhaps four outstanding reasons which explain the principle that state functions are more burdensome to the people as a whole when they are distributed among minor civil divisions and municipalities than when they are administered and supported by the state directly.

1. The principle of diminishing unit costs of work done applies. A given undertaking which is in its nature state-wide in scope is necessarily less costly when the overhead cost of administration is reduced to the requirements of a single directorate than when it is multiplied by the requirements of hundreds and perhaps thousands of directorates, all engaged in the achievement of the same common purpose. The experience of industry

here, already cited, is so conclusive as to leave little reason for argument.

2. Consolidated administration is ordinarily more efficient than diffuse administration, though not necessarily more efficient than any one local administration. Most tax-supported public enterprises, and public schools above all, make very important economic contributions when they are efficient. When they are inefficient, they are discouraging drags on the economic organism.

3. The effect of overtaxed communities in a body politic and economic like an American commonwealth is not offset by the effect of undertaxed or normally taxed communities. The latter are healthy and the former are unhealthy. It is as absurd to argue that the fiscal condition of a state is the algebraic sum of the fiscal conditions of its local communities as to argue that bodily health is the net condition of the physiological organism. The individual who is conscious of an infected appendix is not ordinarily complacent about his condition, in the belief that his brain is still clear and his legs unexceptionable.

4. The fiscal resources of a state are not the aggregate of the resources of its communities. The aggregate of its local communities is not the same thing as its people. Practically speaking, the state may tax all that its municipalities and minor civil divisions may tax, and in addition may tax corporations and individual incomes and lay excises.

Altogether, then, from the purely fiscal standpoint, it would seem to be clearly sound public policy for the states to relieve overburdened communities, not by the distribution of state largess, but by the assumption of functions which in principle belong to the state.

V

The Centralization Bogey.—One of the major handicaps to the continuous adjustment in social agencies and institutions which an evolving society requires is the very human habit of

thinking in verbal stereotypes.[5] Slogans, catchwords, shibboleths, in the minds of the intellectually indolent, take the place of thinking in terms of reality. One of these is "centralization" and a horror associated with the term. Whenever the federal government or a state government takes over functions which are federal or state in their nature, the action is fitted into the verbal pattern "centralization," and the acts are held to be tending toward despotism, bureaucracy, and the destruction of civil liberty. Such people forget that the United States or any of the states is exactly as much an example of popular sovereignty as any county, township, or city. It would be hard to show that our history as a self-governing people has been less respectable when we have acted as a nation or as states than when we have acted in our local interests.

Now consolidation is not centralization. Nobody thinks of a city which has grown out of ward politics as being centralized. Modern industry which combines scores or hundreds of small, independent, and wasteful units into a single powerful and efficient concern is not thought of as following a process of centralization but rather one of consolidation. When frontier districts are combined into township or city districts, township districts into county districts, county districts into a state unit, consolidation has taken place; centralization is not in the picture. Writers sometimes use the term "central government" as applying to the federal or the state government in America. In principle, there is no such thing as *central* government in America, as there is in France, for instance, where the local civil government tends to be an administrative subdivision and neither a municipality nor a minor civil division as it is with us.

Centralization is an administrative term, a theory or policy of administration and not a governmental and fiscal term. When a city-school system, for instance, is administered in detail from the city superintendent's office, so that all tests are prepared there, schedules made out for every school and teacher, supplies

[5] For an extended discussion, see Walter Lippmann, *Public Opinion*.

purchased and parceled out to the schoolrooms, methods of teaching adopted and prescribed, and in brief the whole procedure of the school system routinized, then that system has a centralized administration.

On the other hand, when the several working school units are discovered and organized, the principals left with large freedom in details in order that they may think out educational and pedagogical situations, and when the principals are thus *held responsible for results,* the system has a decentralized administration.

Sometimes centralized and sometimes decentralized administration is the appropriate method. In the competent administration of school systems, decentralized administration is commonly required, since in their very nature school procedures do not lend themselves to routinization. The larger school unit does not then imply centralized administration. If such a procedure is set up, it must in the long run be replaced.

The "Educative" Effect of Local Responsibility.—A priorists frequently hold that reliance upon the local district for support and management must have a wonderfully educative effect on the local electorate and on the amateurs whom the people choose to manage their schools. Granting the contention for the moment, it may well be challenged with an a priori question. Do the schools which are required by the self-governing institutions of America exist for the purpose of educating the present voters and school boards, or for the purpose of educating the children?

Responsibility implies penalty for failure. If the public school were in its nature a municipal and not a state affair, if the children who are in school today were to spend their lives in the local community where they have been schooled, had always done so, and would always do so, if school boards were promptly punished for negligence or incompetency by damaged careers, then we might reasonably expect that local responsibility would in due season have its proper educative effect. But none of these things is true, or is likely ever to be true.

Responsibility implies money with which to meet responsi-

bility. It can hardly be contended that the struggles of a poverty-stricken district, overtaxed and in process of being taxed out of existence, are having an educative effect upon the local people which will eventually provide suitable and adequate schools.

Legislative and Judicial Administration.—The truth of the matter is that, despite a priori theorizing and idealizing, the inexorable force of circumstances is and long has been shifting impossible local responsibility upon the state government, but much of it is a bad method of shifting.

The whole course of equalization acts and state subventions is evidence, so far as fiscal responsibility is concerned.

Even more conclusive is the almost universal tendency to utilize the legislature and the state courts as a state board of education. Thus, we find the session acts of any typical legislative session rich in ridiculous statutes defining junior high schools, specifying the scholastic conditions under which pupils may be admitted to high school, prescribing amendments to the rules for the certification of teachers, authorizing a city to set up a junior college, requiring that something new shall be "taught in the schools," or prohibiting the further teaching of something which is old. In due season, litigation ensues and the already crowded dockets of the courts are encumbered with lawsuits concerning matters which are appropriate concerns of executive boards, but not of the legislature and still less of the courts. We do these things in response to essential needs, but we have not yet learned for the most part to set up the appropriate agencies.

VI

The Enlarging Political and Fiscal Unit a Normal Evolutionary Process.—We have thus at considerable length examined the School as the primary factor in civilized society and have drawn the distinction between State schools, public schools which are not State schools, and private schools. We have followed the reasoning of the courts in identifying the American tax-supported school as a state and not a local civil agency. We

have studied the school district and seen how it grew up to meet frontier needs and in so doing took upon itself the character of a peculiar corporation. The school district and the true municipality have been distinguished and the meaning of true local self-government identified.

We have further investigated the economic foundations of the School and attempted to analyze the financial organization of society and of the American civil state with respect to the support of public schools. In this connection we have seen that we are not likely to be able to utilize the actual fiscal resources of the several states, or to fit the public school system as a whole into its effective place in economic society unless we employ the state as a fiscal unit and consolidate executive and administrative responsibility in a state board.

Finally, we have found that the trend of reorganization during the last half-century has been steadily in the direction of the larger fiscal and administrative unit. Sometimes progress has been direct and the city, township, and county unit have emerged. Sometimes it has been indirect, and blundering, in the form of state equalization acts and subventions, and in the form of attempts to utilize the legislature and courts in the place of an administrative board.

It is clearly evident from all the foregoing that this trend of reorganization in state school systems, far from being revolutionary and subversive of our institutions of self-government, is only one of many instances in the long process of evolution through which we have grown and are growing from a series of isolated frontier republics into a series of mature states in a mature federal state. The school revenue, even more than most forms of public revenue, is intimately bound up with the working out of this normal and natural process. Wholesome growth is proverbially slow. It is a great deal more important that school executives, teachers' organizations, citizens in general should be able to discriminate in principle between good public policy and policy which is inherently unpromising than that anybody should

forthwith proceed to work out a scheme or plan calculated in his mind to serve as a panacea.

Scarcely anywhere in the field which the social sciences cultivate can it be said that plans or formulas or even principles can be prescribed which will insure progress or even a healthy condition in society. Man himself, with his indeterminate nature, is in the picture. But it can frequently be said, Do things in this way and you will probably be able to succeed in your purpose, whereas if you do things in that way you cannot possibly succeed. An integrated state school system founded on a thoroughly scientific system of taxation would not necessarily produce good schools throughout the state, but a school system which is administratively diffuse and is founded on an obsolete and destructive system of taxation cannot possibly generate the kind of schools everywhere which the Citizenship School contemplated by our institutions requires.

The present volume has dealt with the revenue, but, an adequate revenue in hand, the problem is only half-solved. The direction of expenditure is the other half of the problem. An adequate revenue can be wasted or outlay can be so unwisely managed that straitened circumstances or financial disaster is the outcome, no matter how ample the revenue.

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